IMPACT OF THE ADMINISTRATION'S SURFACE TRANSPORTATION BUDGET PROPOSALS FOR FISCAL YEAR 1986

(99–16)

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
SURFACE TRANSPORTATION

OF THE

COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION
HOUSE OF REPRESENTATIVES

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IMPACT OF THE ADMINISTRATION'S SURFACE TRANSPORTATION BUDGET PROPOSALS FOR FISCAL YEAR 1986

THURSDAY, MARCH 7, 1985

House of Representatives,
Subcommittee on Surface Transportation,
Committee on Public Works and Transportation,
Washington, DC.

The subcommittee met, pursuant to call, at 9:40 a.m., in room 2167, Rayburn House Office Building, Hon. Glenn N. Anderson (chairman of the subcommittee) presiding.

Mr. **Anderson**. The subcommittee will come to order.

This is the first meeting of the Surface Transportation Subcommittee in the ninety-ninth Congress. It may also be among the most important. Before we proceed, though, let me say with great regret that Secretary Dole phoned me at about 5 yesterday evening and indicated that, because of illness, she would not be able to join us this morning. And, because she feels that the budget we are examining today is her budget she does not believe it would be appropriate for the model administrators to testify without her, so we will make an attempt to reschedule the administration to receive their views in answer to our questions about the budget in the very near future.

I have many concerns about the budget which the administration has submitted to Congress. There is a saying that the administration proposes and the Congress disposes. Let me assure everyone that is here today that a soon as the authorizing legislation implementing the administration's budget is sent to the Congress and referred to this subcommittee, it will be properly disposed with.

Now, the transit proposals which have been sent to the Hill are a travesty. More than anything I have seen in 4 years, this proposal convinces me that this administration is simply opposed to public transit. And in saying that, I don't necessarily hold any of those who were to testify here today responsible. They have to work with others downtown.

But let's make no mistake about it. This budget threatens the operation of all public transit systems in this country as we know them, and threatens even the very existence of some of them.

I have heard from many transit properties around the country, from transit riders and businesspeople around the country, and from my colleagues here in Congress who represent their constituencies around the country, and I am prepared to say that this

Nation neither wants or needs the administration's transit proposals.

Now, of course, my interests today are not restricted to the transit budget. I look forward to exploring as well the ramifications of the highway and highway safety portions of the administration's proposal with the fine roster of witnesses that we have on today's agenda.

Our first witness is the president of the American Association of State Highway and Transportation Officials, Richard Braun, and Commissioner of the Minnesota Department of Transportation.

TESTIMONY OF RICHARD P. BRAUN, PRESIDENT, AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS: COMMISSIONER, MINNESOTA DEPARTMENT OF TRANSPORTATION; ACCOMPANIED BY FRANCIS FRANCOIS, EXECUTIVE DIRECTOR; AND DAVID LEE, PROGRAM DIRECTOR FOR PUBLIC TRANSPORTATION

Mr. **Braun**. Mr. Chairman, thank you. I do realize you have the prepared statement. I do not intend to read from that statement.

With the understanding that Mrs. Dole was part of your program this morning, we intentionally kept our initial prepared remarks very brief. So, I would just like to summarize our position that's in the statement and leave plenty of time for questions.

I'm Richard P. Braun, Commissioner of Transportation for the Minnesota Department of Transportation, and the president of the American Association of State Highway and Transportation Officials.

With me here today is Mr. Francis B. Francois, the executive director of AASHTO, as well as Dave Lee, our AASHTO program director for public transportation.

First of all, and unrelated to the budget sent over here by the President, I feel it necessary to thank all of you that were involved with passing the ICE, the Interstate Cost Estimate.

In Minnesota, this will allow us to place some $60 million under contract immediately, and another $50 million within a very short period of time.

We are pleased to be here today to present our views on the 1968 budget. AASHTO recognizes the problem of the escalating debt and we surely don't envy the position that you've been put into as a result.

We would like to summarize our position as it relates to the budget for 1986 specifically on highways, and on transit as well.

In our opinion, funding for transportation must continue on all levels of government, and I would like to elaborate on that a little in just a minute.

We feel that other levels of government are doing their share. Using my own State as an example, we've raised the gas tax from 11 cents to 17 cents, the State gas tax that is, in just the last 5-year period. More than a 50 percent increase has occurred. We recognize, also, that the need is tremendous. You just take the number of miles of State highways in our State, again using it as an example and I'm confident in talking to my cohorts this applies in other places, we would actually be reconstructing all roads in Minnesota, not building a road, but reconstructing roads at the rate of once every 135 years.

Now, we've raised the gas tax more than 50 percent. We still have a reconstruction rate of more than 135 years. It is just simple arithmetic to come up with that.

I have seen some Federal correspondence recently that points out that obviously this problem is much more severe in growth areas, and I am sure that any new policy would take a look at that as well.

One of the concerns we have is whether or not a large share of the public really recognizes that freeways are needed and freeways have to be rehabilitated, such as under the Interstate 4-R Program.

A good share of the drivers that are out there today have always driven on freeways. They have always driven, in a lot of cases, on paved roads that are nonfreeways. I, personally, have now been involved in this business some 36 years, in both the public and private side, and recognize as these groups change, a tremendous education is necessary to get people to fully understand the implications of operating without these facilities, and that they are unaware of that.

As far as highways is concerned, we felt that the 1986 program levels, as outlined in the Surface Transportation Assistance Act of 1982, were barely adequate at the $14.45 billion.

It's our understanding now that the President is recommending $1.2 billion less, and the Senate, some $500 million lower than that level.

Yet, Americans are really paying every day into this fund at a rate that would support the 1982 Surface Transportation Act. Funds are collected at that level, and it's our understanding that at least at this time that fund is fiscally sound.

So, the issue really is whether we should spend highway user revenues as collected on the Federal Aid Highway System and spend them when they are collected.

The American Association of State Highway and Transportation Officials has long opposed obligation ceilings that were set lower than the authorized program. This is a very difficult thing for an administrator on a State level to handle if there is not some assurance as to what this funding might be, let's say, 4, 5, 6, 8 years out. Because of the procedures that are required with an environmental impact statement, a location report, a design report, a project development report, purchasing right-of-way, all of the things that precede letting, the lead-time for constructing a highway is somewhere between 6 and 8 years. If you can't count on those funds and you don't have some assurance as to what's going to be available, it's very difficult to manage such a system.

I have been involved with that kind of management on that level since 1976, and I can assure you there are a lot of disappointments and a lot of ups and downs and a lot of wasted manpower as a result of turning the faucet on and off.

That is one of the reasons we really oppose the lower obligation ceilings. We would like to be able to shoot at a target that allows us to do some effective management.

Another question that comes up on occasion is whether or not the States can properly utilize the amount of money that is set up in the Surface Transportation Assistance Act of 1982. We furnished a survey on January 16 to the Congress concerning this. It points out after a very exhaustive survey on a State-by-State basis that the States can use and fully utilize the funding that would be available as promised in the 1982 act.

Our national staff has done an excellent job of getting this information together for us. The States all responded. We're confident that that money can be properly used and it is very much needed.

Another question has to do with whether or not the States can match that Federal money. Again, we're confident, based on checking with the various States, that that can occur as well.

There is one other point in the highway portion of the President's budget that concerns us, and that has to do with the Interstate Transit Substitution Funds. AASHTO does not support taking the transit portion of Interstate substitute projects out of the highway trust fund. We really thought this had been settled back in 1982, that the highway trust fund would support the highway substitution projects and that the transit substitution projects would come out of the general fund. So much for highways.

I would now like to turn briefly to public transportation.

AASHTO believes that any major changes in the Surface Transportation Assistance Act of 1982, such as terminating transit operating assistance; eliminating discretionary grant programs, creating new formulas for capital grant programs, should really be taken up in the context of new, authorizing legislation, and not as part of this budget process.

We also feel that the mass transit cuts, as you have said in your opening remarks, Mr. Chairman, are really too large. Transit is called upon to share too large a portion of the budget cuts. This will have a severe impact, particularly on small systems. I recognize that there are some numbers around about how much Federal money is used on the various systems and that on some of the larger systems it's not a very large percentage of their budget.

In my State, on small transit systems, and we have some 45 systems throughout the State, that percentage exceeds 25 percent, so more than 25 percent of the money that goes into these small transit systems is Federal money. The State contribution is slightly larger than that, not a lot. The remainder has to come out of the fare box or is a local contribution. So, we on the State level are picking up an amount somewhat equal to and actually a little more than the Federal amount.

We did a survey in AASHTO as to what is going on in all of the States, on the State's involvement in funding transit. We found that the amount of money the States now put into transit is $3 billion annually. More dramatically, that is an increase of some $1 billion over just the last 2-year period; we've gone from $2 billion to $3 billion in the last 2-year period on the amount of State subsidy for transit. Neither the States nor the local governments, in our opinion, are prepared or could accept the level of cuts proposed in the President's budget. Perhaps, over a period of time there could be some adjustment made, and that's something that I hope you people would consider. But, to dump that additional load on the

States and the locals in one shot is something that just would not work out.

We feel that the pledges made in the Surface Transportation Assistance Act of 1982, then, should be kept, and any changes, again, should await an authorization bill.

In summary, we are fully aware that there's a national budget crisis. We are not here saying we want more. We recognize, however, that the needs, particularly in highways, far outstrip the money that's available, that some real care must be taken, and that you people will have to make some very difficult decisions.

Also, I want to emphasize that the needs are way, way out compared to the moneys available if you include both Federal, and State and local funding.

I feel that we must all take care so that we are assured that we have a balanced transportation system. We want to meet our stated, collective goals of growth in the Nation's economy, and must maintain a future investment in the transportation system to do this.

There was a bargain struck in the Surface Transportation Assistance Act of 1982 between the American people, the Federal Government, States, other units of government, and highway users, and we feel it was a good one. We think we should stay with that bargain until there's a new authorization bill.

With that, I conclude my remarks. Mr. Lee, Mr. Francois, and I will attempt to answer any questions you have, and really appreciate an opportunity to appear before your subcommittee.

Mr. ANDERSON. Thank you, Mr. Braun, for your presentation.

I have some questions, but first I want a clarification. You were discussing that your State had increased the gasoline tax by 50 percent. I think you said from 11 to 17 cents; is that in addition to the 9-cent Federal tax?

Mr. BRAUN. Mr. Chairman, that is correct.

Mr. ANDERSON. So, that would be a total of 26 cents tax in Minnesota? Isn't that about the highest in the Nation?

Mr. BRAUN. Mr. Chairman, we think that's the fourth highest in the Nation. Minnesota believes that we should be operating under the highway user principle. There are some 30 States, it is my understanding, that one way or another receive highway funding from other sources, for example, from cigarette taxes even, in some cases. We are operating entirely under the highway user principle, and as a result of that, we have to stand up and be counted on what is a very high gas tax, but it isn't quite the highest.

Mr. ANDERSON. I want that point clarified, because I want to congratulate you. I believe in the highway user fee as well, and I think you should be congratulated for being out in the front. I thought that was probably the highest, but apparently fourth is still up there pretty high.

Mr. Braun, I want to first thank you for your testimony and the support that your organization always lends to our efforts to maintain adequate Federal funding for transportation, and I especially want to commend you for your most recent support for an 18-month interstate and interstate substitute cost estimate, and your survey was particularly helpful to us in reaching a concensus on this issue.

Now, one quick question, Mr. Braun, on the reauthorization for the Federal aid highway and transit programs during this Congress. Will AASHTO have a specific legislative proposal, and is it likely to necessitate a tax increase?

Mr. BRAUN. Mr. Chairman, AASHTO will have a specific legislative proposal, and whether or not it will necessitate a tax increase is yet to be determined. The legislative proposal is being developed this way. We formed three task forces, one for aviation, one for public transportation, and one for highways. We did this 8 or 9 months ago, and the task forces have nearly completed their work. Their preliminary reports were before the AASHTO Executive and Policy Committee meetings 2 weeks ago. We would expect to complete that work and pass ballots on those policies among all of the States, so we will have approval by them of the task force reports.

We surely recognize that the need, as I said a few minutes ago, very much exceeds the funding available. However, a decision has to be made, as we discussed in the case of the State gas tax, as to how much of that is going to be a State responsibility, how much is going to be a Federal responsibility, and how much a local responsibility.

We did put together some information as part of the highway task force effort that shows the estimated total investment required in 1987, for example, would be some $26 billion, and in 1995 would be about $30 billion. This is for all systems including the interstates, and, of course, we expect the interstate will drop off in 1990 or essentially not beyond 1991.

We are, then, in the process of coming up with an answer to your question and as part of that, we will also be talking about alternative sources of funding.

Mr. ANDERSON. Mr. Braun, Congress recently received some criticism from the Administration, and others, for its authorization of highway demonstration projects in general. However, legislation contending that there is too much political influence involved in the authorization of these projects. Now, if you know, our most recent highway legislation contained authorization for these projects that amounted to about 2 percent of the total Federal aid highway budget, whereas over 90 percent of the Federal aid funds go to States on a formula basis and the States themselves select the projects to be funded.

Now, my question to you is: How do most States go about selecting the projects to be funded and to what extent is there political influence in the selection of highway projects at the State level? You may want to respond now for the State of Minnesota, but we would also appreciate a more studied and comprehensive response for our record.

Mr. BRAUN. Mr. Chairman, AASHTO would like to submit a more comprehensive response later. But I'm very happy to respond today on behalf of Minnesota, because that's the type of question that comes up every time you either put together a program and somebody's project isn't in it or more often, when you cut a program; when you find that anticipated funding really didn't materialize or the State legislature didn't produce the funding that we had hoped. We had developed a program based on that funding, so we have to cut back. As soon as you start to cut back the program, the criteria you use are challenged and justifiably so. I am sure you recognize the people whose projects still remain in the program don't challenge the criteria. It is those people whose projects are culled out who say there's something wrong with the criteria.

Well, I have been in this business a long time, and I learned a long time ago not to make promises you can't keep.

One way to stay out of trouble is to have some fairly firm criteria that determines how, either side, whether or not a project is in or out of your program.

It's become so controversial and the question is asked so often that I carry in my date book a little sheet of the five or six criteria that we use. There is subcriteria under them. We use criteria that are weighted, and they, then, determine the ranking for that specific project. The major one is what's called a sufficiency rating, and that counts some 35 percent. That sufficiency rating involves load-bearing capacity of the road, the safety, the level of service, the access, the ride on the surface, and all of that. These comprise the one item of sufficiency rating.

The next is class effectiveness, what you would get for what you spend. That's really a class benefit of ratio arrangement with a little embellishment in it, and uses the average daily traffic on some 20 years to out as far as the projections go. We count that at 20 percent.

Another item that is very important in our State is goods movement. We count goods movement at 20 percent, and we use the projected traffic of the heavy commercial average daily traffic.

We are a tourism State as well, and as a tourism State the traffic that we call peak month traffic is important because during certain times of the year, you have a situation where traffic is up appreciably on specific routes in order to entice tourists and keep them coming back. You need a good highway facility for this, so that small amount counts at 5 percent.

In order to be sure we are spending the money on the roads that are most important, the functional classification of the highway is a factor as well, and that counts 20 percent.

Now, we have had these criteria for 5 or 6 years. Every year they are challenged by someone who doesn't have a project. Some even hire people to come in and take a look at these criteria.

I'm not saying they are the best or the only criteria, but they sure work and they sure take the political influence out of this. We have had legislators who have somebody come in, to work with our people to see whether the criteria is fair. Almost anybody can find a different way of doing it, but I found that this way has been very satisfactory for us.

I am sure some other States, perhaps not all, have something that's similar, because beyond that, you really can't defend the decision on what project is in and what project is out. And you get to the point that you recently mentioned. On a State level, again, you find legislators, particularly new legislators, who want to bring home a piece of the pie and make some promises, and perhaps you can get elected on that. But once they are in office a while, they realize that if you are going to be part of the process that determines who brings home a piece of the pie, you better bring home a piece. You are a lot better off to be able to blame it on somebody else if you don't bring home a piece, and that's my job, the one who gets blamed in our State.

I found that over the years, that's worked very well for both political parties in Minnesota.

Mr. ANDERSON. Thank you.

I really wanted to point out in my question that only 2 percent of the total, however, is identified as congressional, actually, direction and that over 90 percent of Federal funds do go to States on a formula basis. So, that's what we are doing today, so we are not too bad when you think of those proportions.

Mr. FRANCOIS. Mr. Chairman, to followup here, on Mr. Braun's commitment, we will be pleased to work with our Standing Committee on Planning to develop a comprehensive reply to that question.

Mr. ANDERSON. Yes. I did say that I would hope you could give us a more studied, comprehensive response for the record.

Mr. FRANCOIS. We will do so.

[See letter supplementing testimony, page 49.]

Mr. ANDERSON. Now, much attention has been given to the administration's proposed fiscal year 1986 freeze of obligational authority. Now, isn't this having a disruptive effect on the ability of the States to adopt long-range plans that are essential to good highway planning. It appears to me that if a State doesn't know how much obligational authority it will have a year or two in the future, we may as well not have out here authorizations in the program.

The very element that contract authority was created to help instill, that is the element of certainty, is diminished by obligational limitations. Now, don't you agree with that?

Mr. BRAUN. Mr. Chairman, I sure do. I have had to stand up in front of committees in our own State legislature. I admit this year that I didn't know the size of our construction program for this year, 1985, within $70 million. This didn't have to do with the freeze of the obligational authority, but it really had to do with the passage of the interstate cost estimate, which is another big uncertainty on our part; it's a very difficult thing, then, to manage. It's a very awkward situation for any chief administrative officer of a State DOT. It is also very awkward for the contractors, and the small contractors complain that the large contractors, because they don't know what's going to happen on the big jobs, are out getting the small jobs, and if they are out getting the small jobs, the small contractors, in turn, if and when the large projects come online, are not able to bid on those. And that is exactly what occurred in our State in the last couple of months. The freeze and the holdback on the ICE did not allow us to let some $50 million worth of work. The same contractors who would have bid that work went out and bid the regular State highway projects and some large county projects, and sort of froze out the smaller contract.

It's an awkward situation for an administrator to manage. Everyone is accused of, perhaps, being able to do better management, but this truly is no help. And I certainly agree with your statement that the obligational limitations are another impediment to adequate and reasonable management on a State level.

Mr. ANDERSON. I don't think there is anyone more concerned than I am about obligational ceilings set below authorized levels. Now, if nationwide obligational ceilings can't be increased or lifted entirely, with AASHTO support legislation to, at a minimum, give those States with the largest amount of unobligated backlog additional obligational authority.

Mr. BRAUN. Mr. Chairman, I am one of those States that has a lot of interstate left to do, $450 million worth of interstate remaining to be completed in Minnesota. So, I am very concerned about the authorization level and the national obligation ceiling. This is something, however, on a Federal level, on a national level, that AASHTO is yet to take a position on. I feel it's something we have to take a look at. I would hope that the answer that we would come up with would assist you and your response, then, would be something that would be fair to all States. It is a very difficult situation if you have a lot of interstate left to complete and I realize that every year fewer States are in that position; but we have a long way to go, and we hope that it is done in a fair manner.

Mr. ANDERSON. Now, we have as the national goal the completion of that Interstate System you referred to. There are those who believe that we should declare victory, by that I mean abandon all the unfinished segments and then quit. And from what you just said, I would assume that is not your position then?

Mr. BRAUN. No.

Mr. Chairman, that is not my personal position and it is also not the position of AASHTO.

We do get concerned, however, that as more States complete their interstate, there's less and less support out there, and that has to be obvious to everyone.

This seems to occur, for example, among some Governors in the National Governor's Association, and the idea to declare victory and quit has been mentioned in that group. But I'm surely not a person that is in that category. We want to see the interstate completed, and both NGA and AASHTO has taken a strong position on that.

Mr. ANDERSON. It sounds more that when you declare a victory like that, that means after you lost the game you declare you won and you didn't. I have one of those segments in my general area, the Century Freeway, so I want to see that completed.

So, how are we going to complete the interstate with these obligation ceilings? Now, I know one State—as a matter of fact I'm flying home tonight to my State—that can't even get into the Interstate Discretionary Program because it just doesn't have sufficient obligational authority to eat up its tremendous interstate backlog. Now, they are doing a much better job than in the past. They're growing it down, but they don't have the obligational authority to wipe it out entirely.

Now, will other States be having this problem? And if so, what can be done about that?

Mr. BRAUN. Mr. Chairman, other States are having that problem. My own State is close to that problem, but we've been able to, under the current obligation authorities, spend down the interstate to the point where we could get discretionary money, and, frankly, have been very successful doing that. We received as high as $20 to $30 million a year.

AASHTO has a solution for this, and we're voting on a position that interstate completion should be exempt from all obligation controls. I'm sure from a budgetary standpoint that isn't going to sell too well with some people, but we feel that that would be one way of handling this situation. If you exempted interstate, it would help those States who have a lot of, a substantial amount of, their interstate yet to complete. I would be in a position then to work outside of the obligation controls. I wouldn't have the problem that you are talking about, and could also be in a position then to obtain discretionary funding.

Mr. **Anderson**. I have several questions. I am going to ask one more and then I am going to yield to my colleagues.

Now, as you know, reports suggest that a continuation of fiscal year 1986 funding levels, beyond fiscal year 1986, will trip the Byrd amendment in a few years. Yet you say the 1986 levels barely meet program needs. How would you address this paradox?

Mr. **Braun**. Well, Mr. Chairman, that's a concern of ours, also, on the Byrd amendment. And we do believe that the 1986 levels barely meet the needs, if at all.

One thing that we might look at here has to do with exemptions. Gasohol exemptions, for example, are a very large exemption that I think something could be done with. We could take a look at what is really occurring now on the amount of money, or I should say, the taxes that are being assessed as part of the Surface Transportation Assistance Act of 1982, against the heavy vehicles. A cost allocation study was prepared, and after all the dust settled, in the act of 1982, the revenue numbers for the heavy trucks didn't come anywhere near what was occurring on the cost allocation studies or what was shown there.

We think there's a number of ways, and I'd like to get back to gasohol a minute, where additional funding really in effect is now being diverted. I believe it was back in about 1978 that gasohol first came into play, and exemptions were being considered. The more recent figures now show that on the 6-cent exemption, that could amount to as much as $7.5 billion of diverted revenue between 1983 and 1995.

Senator Durenberger has a bill that says that this loss would be replaced from the general fund. I am not too sure that that is a very likely situation when you consider the deficit, that you would replace money into the highway trust fund out of general funds.

Our position on gasohol is that if you're going to help agricultural sales, first of all, you have to find out whether that exemption really is a benefit to the farmers in the United States and how much of our gasohol comes from overseas, and, second, if we are going to subsidise gasohol we ought to do it in a more direct way and not attempt to do it through the gas tax. So, those are just a couple of examples and I'm sure there are a lot more, and, Frank, maybe you would like to embellish them.

Mr. **Francois**. We currently have no specific position with respect to additional revenue measures. I think we all recognize we are going to have to take a hard look. However, the question, in part, is, what is going to be the Federal share of the Federal-Aid

Highway Program, and what is the future shape of that program itself? There is a strong feeling within AASHTO, and there has been for many years, that there must be a priority to how the Federal highway funds are spent.

We believe that the first priority must go to what we are now calling a system of highways of national significance. That is, if we can't find all the money needed for all the systems, then the first priority needs to be the interstate system, the primary system, and the bridges on those systems. Why? Because those are our most important highways. They make up our national system of highways, and are ones that the States themselves frequently cannot maintain with their own resources. And if Congress, AASHTO and the States don't collectively worry about that set of highways, no one else will.

We would hope that we can also continue to find additional revenue for the lesser priority programs. But if a decision is going to be made that additional revenues cannot be raised, and that we must live within existing revenues, then we think we would simply have to concentrate those revenues on the systems of highest need, and withdraw revenues from those of lowest need. That's a hard way to say it, but those are the choices that we think we're faced with.

Mr. Anderson. I have four other questions. I am going to yield to my colleagues, I will give them a chance.

Mr. Shuster?

Mr. Shuster. Thank you very much, Mr. Chairman. We certainly appreciate you being here today.

I have one question. I notice that this year AASHTO is making no comment concerning the desirability of greater flexibility in making categorical transfers. Is it still AASHTO's position that transfers between interstate construction and interstate 4-R should be submitted?

Mr. Braun. Yes, it is, Mr. Chairman, that remains in our policy. We didn't make the statement because we didn't feel there was any need to. If there is any doubt, we strongly support that.

Mr. Shuster. Thank you very much.

Mr. Anderson. Mr. Edgar?

Mr. Edgar. Thank you, Mr. Chairman.

I have no real questions about your testimony, I think it is very straightforward and you have been as clear as you could be. I do have a question about the 1982 Surface Transportation Assistance Act. What has ~~been~~ your experience in our shift to try to make some of those funds available for major renovation and reconstruction of the existing interstate system and existing highways and bridges across the board? Has, in fact, the need for rehabilitation funds been met in part by that Surface Transportation Act?

Mr. Braun. Mr. Chairman, Congressman Edgar, the answer is yes, the needs are not really being met, but we've made a strong movement in that direction, and, frankly, I don't know what we would have done had the category not been increased. This is going to become increasingly important to all States in the future. I mentioned a while ago we have a whole generation of drivers now that never drove on anything other than freeways, at least for them there always were freeways; and, unfortunately, in their early driving years, a lot of them were driving on new freeways. Those new freeways aren't going to be around. Those freeways have to be rehabilitated for defense reasons, as well as for other transportation reasons.

We see tremendous needs out there now for rehabbing. In some cases, it is relatively minor works: joint repair; shoulder repair; resurfacing, for example. In other cases, it's removing the entire slab; crushing it and using it as aggregate, and then replacing the entire pavement.

Mr. **Edgar**. I was just going to mention that we are having a great deal of difficulty getting into the city of Philadelphia now because of very necessary repairs to the Schuykill Expressway and bridges that separate the airport from the city, and it is a very difficult commute. It will be a difficult commute for several years because of the inadequacy of the highway network in and around the Philadelphia area. But had it not been for the Surface Transportation Act shift toward rehab, reconstruction, and renewal, I am not sure that those funds would have been adequate and I think it is working. We also throughout Pennsylvania have a problem with dilapidated bridges. I saw one report that estimated that one-third of all of the deteriorated bridges in the Nation were in the State of Pennsylvania. We really believe that shift can be made in that direction as well, and I hope that we can keep the level of funding for highways and bridges out at the current level on into the foreseeable future to do these major renovations.

Thank you very much.

Mr. **Anderson**. Before I recognize our ranking member, I want to welcome a former colleague of ours, Don Clausen, who had great influence in this committee when he was voting and talking. He still has great influence, but I am not going to let you talk today. We do want to welcome you today, Don.

Mr. **Clausen**. Thank you.

Mr. **Anderson**. This time, the ranking minority member, Gene Snyder.

Mr. **Snyder**. I have no questions, Mr. Chairman.

Mr. **Anderson**. Mr. Andrews?

Mr. **Andrews**. I have no questions, Mr. Chairman.

Mr. **Anderson**. OK. Mr. Hammerschmidt?

Mr. **Hammerschmidt**. I have no questions, Mr. Chairman.

Mr. **Anderson**. OK. Mr. Moody.

Mr. **Moody**. Yes, thank you, Mr. Chairman.

As an urban legislator, I'm particularly concerned with the question of mobility in the urban areas. As you know, a small percentage of the mileage of the Interstate System is in the urban areas, but a disproportionate amount of the difficulty, political difficulty, and a disproportionate amount of the cost, of completing interstates, and so forth, are found inside cities like my own, Milwaukee.

There have been freeway revolts in various cities as the value of the disruption has exceeded the value of the freeway, and we have all been looking over the last decade or so for better ways to handle this problem. Has AASHTO taken a position on the question of TSM? TSM, transportation system management, has been advanced as one way of approaching the problem, where you can often acquire as much mobility at a small fraction of the cost as you would by building a third lane or a fourth lane by doing other things, traffic management, signalization, encouraging carpools, all sorts of management techniques, some of them using computers, some of them using control techniques rather than simply more concrete. Has AASHTO taken a position on this issue of mobility and bang for the buck for mobility rather than simply more pouring of concrete?

Mr. **Braun**. Mr. Chairman, Congressman Moody, yes, AASHTO has. AASHTO's position is that funds, transportation funds, should have the broadest use possible to accomplish the objective. Most chief administrative officers who have been around for a long time recognize that their duty, their responsibility, is the movement of people and goods and managing a transportation system. And managing a transportation system doesn't mean construction necessarily. Construction is only one ingredient——

Mr. **Moody**. Right.

Mr. **Braun** [continuing]. And that is really the way that we look at it.

As far as ride-sharing goes and other vanpooling, which happens to be very popular in my State, we feel, and AASHTO feels, they should be eligible for Federal funding.

There's another whole host of TSM improvements on nonfreeways, for example, fixing up intersections; turn slots; double turn slots; and right-turn lanes that go a long way in increasing the capacity. Anything that would help to increase the capacity should be eligible and it shouldn't necessarily have to be a project, some horrendous large project, before it would qualify.

Mr. **Moody**. I appreciate that. I think that's an excellent statement on your part, and I think it's to be commended.

Let me ask the next question that goes with it: What about the funding? Earlier you said that you did not think that the mass transit should be funded out of the gas tax. That was your position, and, yet, if you are going to have TSM in a variety of ways, including transit and all the things you mentioned, don't you need to think of it as one pot of money? If we can substitute moving people one way versus another, let's say vanpools or buses rather than one and a half persons per automobile, should we lock out the funding and say, "We are only going to spend gas tax for highways?"

Mr. **Braun**. Mr. Chairman, Congressman Moody, over a period of years, I feel that the caretakers of the highway trust fund, the Congress and the Senate, on a Federal level, have broadened the highway use considerably. A few years ago, bus lanes were not even eligible unless you had *x* number of buses, and you couldn't count carpools. That's all changed.

A few years ago, vanpooling, for example, and carpooling, and all other forms of ride-sharing were not eligible, so I think we are moving in that direction.

I, and AASHTO, do not feel that it should be one pot of money as far as capital improvements go, for example, or operating expenses. I think we could do a lot out of the highway trust fund without moving all the way over into the other end. Now, perhaps, Mr. Francois would like to elaborate on it.

Mr. **Francois**. Mr. Chairman, Mr. Moody, one further response to that. I would note, among the States, generally, particularly those States that are urbanized, there is a growing recognition as you have recognized that we must look at the transportation system as a whole, and that is occurring more and more in our large States and in our large urban areas. Transportation is increasingly being looked at by the States from the standpoint of both highways and transit. You have heard us testify here about, and the report we have given to you outlines, a tremendous growth in public transportation activity within the States themselves. That is reflective of the issue that you raised.

I would note also that in 1982, during the consideration of the Surface Transportation Assistance Act, AASHTO did support the concept of the establishment of the mass transit account within the highway trust fund, taking 1 cent of the Federal gas tax revenues for transit purposes. That was in recognition of what the States are now doing, the feeling within the States that there is a role for both highways and transit within urban areas. So, we believe that there is some limited usage of highway tax revenues that is proper for transit in the Federal Highway Program.

At the same time, we feel that the major usage of highway trust fund revenues must remain in the highway system itself and that we must find other mechanisms to help fund transit wherever we can.

Mr. MOODY. Thank you.

The reason I asked that question is that I've seen in city after city where you have two sources of funding coming down to the local level. You have the highway source of funding and you have the transit source of funding. Frequently, at the operating end, in a city, there is not enough coordination between the two, and there's not enough—thinking that, "Hey, this is one big mobility fund and we have to be able to substitute back and forth and do the most intelligent planning overall." Frequently funding drives planning, funding drives construction, and funding drives capital purchases, in my estimation, there hasn't been enough coordination at the end of these two funding pipelines, one with the other. I would like to see us someday move toward a kind of urban mobility fund where we recognize the substitutability of car lanes and bus lanes and transit and TSM and signalization. These are different ways, different strategies, for accomplishing the main goal, which is not construction or purchase but rather moving people and getting more coordination back and forth between those the sources, those two parallel sources, of funding would be highly desirable both for the conservation of energy, for better urban designs, more liveable cities, and more efficient use of the money.

I would appreciate your comments on those thoughts.

Mr. FRANCOIS. Mr. Chairman, just one further followup on that. In those areas where there is an effective metropolitan planning organization made up of State and local officials, the kind of coordination you are talking about does occur. And within AASHTO, we strongly support and have supported the development of the MPO's in recent years as a mechanism for doing exactly what you are saying. We think that through a comprehensive planning process that involves all parties, that looks at both the transit programs and the highway programs with all players at the table, it's possible to achieve the best use of funds that you are asking for.

Mr. Moody. I agree with that. The problem is that they tend to live by the golden rule in these matters, he who has the gold sets the rules, and when the money comes down it belongs to the highway local authority. They are not quite so quick to, as you might hope and we might all hope, to recognize these substititions. So, it may take more than just simply good will sometimes.

Mr. Braun. Mr. Chairman, and Mr. Moody, I'd like to give you an example, a very current example that I think is somewhat dynamic, along the lines of what I said before about my responsibility to manage a transportation system and not build one. We are in the process of constructing a highway called I-394 through Minneapolis west. The design section on it is a two, two, and two. The outside two lanes on each side are for cars, and the center two lanes for the first 8 miles will be HOV lanes, high occupancy vehicle lanes. As it approaches downtown Minneapolis, the last 2 miles, the two center lanes will be separated. Those two lanes, then, will be reversible lanes. It isn't just the matter of a diamond lane on each side. This not only enhances the cost, but, I think, will be the major benefit. Currently, we have a four-lane road, although it isn't a freeway, it's an expressway. The new road will perform at a higher level, and the major benefit will be transit. It's all out of the interstate funding.

In addition to that, to try to enhance the use of transit, we are going to build interim HOV lanes at a cost of $4 million now, and they will be in service all during the highway construction. Now, there's an example of really trying to entice people to transit at a time when the congestion is going to be severe. We will be building those lanes this summer. As a result of the interstate cost estimate that was passed just the other day, that will be one of our expenditures to try to entice people out of a single-occupancy vehicle into either a carpool or a vanpool or a bus. Even on an interim basis.

Mr. Moody. Thank you very, very much.

Mr. Anderson. Mr. Clinger?

Mr. Clinger. No questions.

Mr. Anderson. Mr. Lipinski?

Mr. Lipinski. No questions.

Mr. Anderson. Mr. Callahan?

Mr. Callahan. No questions.

Mr. Anderson. Mr. Mineta?

Mr. Mineta. No questions.

Mr. Anderson. Mr. DeLay?

Mr. DeLay. No questions.

Mr. Anderson. Well, it comes back to me, and I do.

Mr. Braun, a moment ago, I was talking about obligational ceilings. I was to pursue that.

Now, reducing the obligation ceiling now is not going to reduce Government spending in the long haul, but merely delay it; isn't that so? I'm taking that a step further. Would it actually increase spending in the long haul as construction costs increase with inflation and also because it is less expensive to do most kinds of reconstruction work before we let conditions deteriorate too terrible, so if by delaying work and allowing roads to deteriorate further, we are certainly adding to the eventual cost of the work; isn't that a pretty good analysis of it?

Mr. **Braun**. Mr. Chairman, I couldn't agree with you more. There's really no free lunch. You don't postpone capital expenditures and have the need evaporate. That just doesn't occur, and any delay does, obviously, require an increase in funding ultimately. There's a whole science called "pavement management," which talks about when should you reconstruct a road; when should you resurface it; when should you take other actions in order to prolong the life of the road. What it points out is that there is a definite period where if you don't do something to that facility at that time, the ultimate cost just exponentially accelerates to the point where it's total reconstruction and rebuilding is necessary. Pavement management is somewhat in its infancy, but in the last 5 or 6 years it has sort of caught on. We talked a moment ago about the 4-R work on the interstate. To us, a key ingredient is timing; if you let those roads deteriorate too far, you really come up with the same high cost high cost situation.

Another thing that occurs is that when you have insufficient funds, you try to cut back on the size of the project, and, obviously, then, the unit cost increases as well. So, there is a whole host of activities here that substantiate what you said. In the long haul, you just plain spend more money.

Mr. **Anderson**. How do you argue the administration assertion that programs which are not supported by user fees and are not of benefit to the general taxpayer are not deserving of Federal assistance? This, to the administration's way of thinking, applies to section 9 transit programs. Would you comment on that?

Mr. **Braun**. Yes, I'd like to.

First of all, we think that transit is of benefit to the general taxpayer, and for that reason, we don't see anything wrong with funding transit out of the general fund. That would substantiate the fact that Federal assistance, for example, as well as State assistance should be necessary. Incidentally, on that issue, as somewhat of an aside, in talking about transit before and about the need for Federal aid, I, perhaps, did not point out sufficiently that if you use the logic that the Federal Government should get out of transit assistance because it is strictly a local matter, then you can try to use that same logic on my level of government, on the State level. If it is a local matter, why are we involved? We both are involved as equal partners: both, really, in effect, subsidizing the local transit, because we feel that it is a benefit to the general taxpayer.

Another thing occurs on the transit programs, as Mr. Moody was mentioning before, is that there are occasions where it really offsets a need for highways. When you get into managing a system rather than just being concerned about building it, it becomes obvious in a lot of cases in the heavily-congested urban areas that there's no way you could construct a sufficient number of highways. So, you actually then use transit funds to offset those needs.

Goods movement is another matter. Moving goods over highways is easier where transit results in less congestion, and as a result of that, then, we feel some Federal assistance to transit is necessary to benefit highway movements.

Now, I don't know whether Dave or Frank want to——

Mr. **Francois**. It's well covered except, perhaps, for the last point. We forget sometimes that all goods movement in our urban areas is by truck. Those trucks move on highways, and the congestion that occurs on those highways is directly related to the people movements on them. Now, since the highways are more crowded because the transit system fails, you are, therefore, increasing motor carrier cost sharply. That is a cost to the general taxpayer.

I think, briefly put, we feel that transit in an urban environment is part of a coordinated transportation system, and if you take it out, you are going to affect everyone. So, we just see no support for the concept that it is not of general benefit.

Mr. **Anderson**. You answered my next question, I think, a little bit, but I am going to ask it just to get it in the record again.

The administration believes that operating costs are essentially a function of local government and programming decisions and so should not be borne by the Federal Government. You touched on that a little bit, but I want to get a little bit more direct on that one specific thing.

Mr. **Braun**. Mr. Chairman, as I did mention, AASHTO's position is that we support operating assistance. We don't really feel that transit ever has a chance of paying its own way, particularly in the small areas. The systems would just go down. If Federal funds dropped off now, and we, in turn, dropped off the State funds, and as I mentioned, we're paying almost equal shares, at least in my State, that system just doesn't have a chance. You couldn't charge enough to handle it, so the system would go down. So, we feel there is a social benefit and we support the operating assistance.

We think it should be shared on all levels of government.

The Surface Transportation Assistance Act of 1982, in our opinion, set sort of a compact, and it said that, "This is the way the transit would be handled." Our position is that until there is a new authorization bill, that it should stay that way. And, I think I mentioned a while ago the survey among the States that showed that the State expenditure went from $2 to $3 billion in just the last 2 years, and that shows a strong commitment on the part of the States.

If the Federal Government could rationalize that it's a local problem, Mr. Chairman, I think the State could rationalize that it is a local city problem, too; but I don't think either of us would be correct.

Mr. **Anderson**. Do you support the continuation of the 85 percent minimum apportionment program?

Mr. **Braun**. Yes, we do.

Mr. **Anderson**. OK, Mr. Hammerschmidt, I believe you had another question.

Mr. **Hammerschmidt**. Thank you, Mr. Chairman.

Mr. Braun, we appreciate your testimony. AASHTO always brings us very important information.

My question is: Do you have the latest figures on what the inflation factor is on highway and bridge construction?

Mr. **Braun**. No, we don't.

I'm sorry, Mr. Hammerschmidt, I don't have that. We get reports from various States. The States sort of circulate the reports among themselves and somehow it gets tabulated, but I am afraid I'd be misleading you even if I guessed it.

Mr. **Hammerschmidt**. All right, thank you very much.

Mr. **Anderson**. Mr. Edgar?

Mr. **Edgar**. As you could tell this morning, Elizabeth Dole was unable to make it, and we have not the opportunity to ask her questions before we ask you questions, which is actually pretty good, because it gives us a chance to ask you the question, and that is, if you had the chance to ask her a question, what would it be, given all that you know about the budget that the White House has sent to Congress with a 66 percent reduction in public transit, with some of the changes they're suggesting in their budget mark? What question do you think ought to be articulated with Elizabeth Dole in that area?

Mr. **Braun**. Mr. Chairman, Mr. Edgar, that's an interesting question. I'd be happy to take advantage of that. Two things come to mind immediately, and perhaps Mr. Francois or Mr. Lee have others. But first of all, it escapes me as to the logic on why the money isn't spent that goes into the highway trust fund. Every year the taxpayer has to produce this money. It's taken from him when he purchases fuel, and makes other expenditures that have a tax on them that go into the trust fund, and yet we somehow can rationalize withholding that money, reducing the authorization limitation. It's not general fund money, it's user fees, and I have a problem understanding why that should occur.

The second is I have trouble understanding how anyone could rationalize that transit funds could be reduced that dramatically all at once. If there would be a transition so the local units of governments could make a decision, that would be one thing. But to say, "This is the way it is going to be from here on out," after we've had almost a decade of Federal subsidies into the transit fund, and change it overnight, I just don't understand the logic. Because there's just no way the locals could catch up.

Now, with a few more minutes, I probably would think of a couple more zingers, but those are the two things that come to mind immediately. I very much appreciate a chance to put that in the record.

Mr. **Francois**. Mr. Chairman, if I could add one to that. As those of us who have worked in local government over the years known, like Congressman Mineta and myself and some others of you up there, a key to any economic development is transportation. And certainly within AASHTO, we fully understand that. Transportation is some 20 percent of this Nation's economy. In order for any economic development to occur, new factories to open, new office buildings to occur, you must be able to move people and goods back and forth to those facilities.

A principal goal of this administration and I think of all of us is economic growth in this country. In order to have economic growth, we must have growth in the transportation infrastructure. Therefore, isn't there a basic incompatibility between, on the one hand, saying, "We want and need economic growth," and on the other hand, cutbacks in the transportation infrastructure that is necessary to support that growth?

Mr. **Edgar**. Thank you very much. Your questions are helpful and you may see them repeated in the near future.

Mr. **Braun**. Thank you.

Mr. **Anderson**. Mr. Moody, I believe you had another question.

Mr. Moody. Yes.

Following on that very point, you know, we have just about the lowest-priced gasoline of any modern nation in the world, maybe any nation. The cost of gasoline today to the motorist is less in purchase power terms, that is after inflation, than it was in 1974, and it continues to drift downward in that sense. We are now moving back to very cheap fuel. And since we have our infrastructure needs that are growing at a compounded rate, and since we have a lot of crumbling infrastructure, and since we need to repair our bridges and our roads, and do a lot of other things in order to have economic growth, are we at the right level of taxation of fuel? Perhaps we should consider a fuel tax that is a little more realistic and a little more in keeping with the price of fuel around the world, particularly since we have decisions, based on the conservation motives which were so important a few years ago to help Detroit to begin to retool for more fuel-efficient engines; help maintain energy independence from other—from OPEC nations, for example. Isn't it time to consider a more realistic level of gas taxation?

Mr. Braun. Mr. Chairman, Mr. Moody, I would agree with you. Perhaps this is a time to shift gears, and take a look at it. You mentioned gas prices throughout the world. It is not uncommon that gas is priced at $2.50, $3 per gallon. If you look at and ask what that price comprises, in many cases, it's half tax. It isn't, obviously, the cost of product, because there can't be that great a differential in delivering the cost of the product in Europe, for example, versus the United States. It turns out to be, as I said, a substantial amount of that is tax.

We feel that there's another part to this that didn't get mentioned today that we think deserves serious consideration. That has to do with making some adjustment in the future for what actually is occurring in energy conservation and the reduction in consumption.

Your State, I believe, indexed your State gas tax——

Mr. Moody. Right.

Mr. Braun [continuing]. A year or two ago? We are trying to get that through the Minnesota legislature right now. Not only is the price of gas coming down, but due to increased vehicle efficiency, the person is getting many, many more miles per gallon right now and miles per penny of tax, obviously, more than they ever did, and the line is just constantly going down. We think there should be some adjustment for this in indexing.

The type of indexing you have in your State has two variables in it. One has to do with the Federal operations and maintenance cost index. It can't be manipulated by any one State, but nationally each State has to submit their information to the Federal Highway Administration on the cost of maintenance and operations for that year, and that year, then, is compared with the previous year.

The other part of the formula has to do with consumption. As we are all admitting, as vehicles become more efficient, they, obviously, take less fuel. When they take less fuel, they get to go farther down the same road, wear out the same road, and pay less in taxes.

Now, we think the motorist should be able to benefit from that efficiency as far as the price of the product goes, but not necessarily a tax bite. And there ought to be a way, then, to index that, which your State has done. There you just compare the overall consumption 1 year versus the preceding year, and that becomes the other factor. Of course, one is an inverse ratio to the other, one has to increase, one has to decrease, but the composite of those two, then, at least allows for indexing that gas tax so it can go up, assuming fuel consumption goes down, and the operation of the maintenance cost index go up. That's a small part of trying to just add another tax. But we think that would be a key ingredient and we would hope that such a plan would be considered on a Federal level as well.

Mr. **Moody**. Right, in terms of purchasing power every year.

Mr. **Braun**. Right.

Mr. **Moody**. Thank you.

Mr. **Anderson**. Mr. Clinger?

Mr. **Clinger**. Thank you, Mr. Chairman.

Mr. Braun, last year, the Congress passed and the President signed a bill creating, for the first time, a Federal capital budget, and 2 or 3 weeks ago we got the Office of Management and Budget's first cut at that effort which was to try and give us a little better projection, of what the Government proposed to do on a wide range of infrastructure problems. I wondered if AASHTO had a chance to look at that first cut, and, if so, if you thought it was a useful document or if there were changes or additions that should be made. Maybe Mr. Francois would know.

Mr. **Francois**. Mr. Clinger, we have looked at it. We have not had a chance to do any indepth analysis of it yet. As you outlined, it is clearly a first cut, and having been through this process at the local level, I know it takes many cuts before you get what you really want.

I think it certainly will have some very useful aspects to it. The most important aspect is that it is going to point up in one place the capital needs that we truly face in this country. I think you and the others who worked on this ought to be highly commended for causing this focusing to occur.

If you would like, we will be pleased to provide you with our written comments on it.

Mr. **Clinger**. I think we would very much like to have AASHTO's comments on it.

[See letter supplementary to AASHTO testimony, page 49.]

Mr. **Edgar**. Would the gentleman yield?

Mr. **Clinger**. I'd be delighted to.

Mr. **Edgar**. It would be helpful if you could send those written copies to our offices as well as a copy to the committee. Sometimes it takes a while to translate it from committee print up into our offices, and the issue that my colleague from Pennsylvania raises is important. I'd be interested in all of the groups that testify at their analyses of the capital budgeting process and how we might deal with some of the deficit questions that the President is trying to deal with through assessment of what our capital needs are in all of these areas 5, 10, 15 years out, and looking at ways that as we place construction and capital in the budget, we figure out how we are going to pay both principal and interest. I think we do that in the highway trust fund because we have a predictable funding mechanism, we know what the dollar commitments are. We are not making ourselves indebted because we have that pool of funds. It is not the case in some of the other categories of funding where the Federal Government makes a commitment this year to construct something, and then only pays the interest off of it over time.

Mr. CLINGER. I appreciate the comment and I appreciate the leadership of my colleague from Pennsylvania.

Mr. EDGAR. Thank you.

Mr. ANDERSON. No further questions?

Thank you, Mr. Braun, Mr. Francois, and Mr. Lee for an excellent presentation.

[Mr. Braun's prepared statement and AASHTO's letter supplementing testimony follows:]

AMERICAN ASSOCIATION OF STATE HIGHWAY
AND TRANSPORTATION OFFICIALS

RICHARD P. BRAUN, President
Commissioner
Minnesota Department
of Transportation

FRANCIS B. FRANCOIS
Executive Director

STATEMENT BEFORE THE
HOUSE COMMITTEE ON SURFACE TRANSPORTATION
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

Relating to

PROPOSED SURFACE TRANSPORTATION BUDGET FOR FISCAL YEAR 1986

by

RICHARD P. BRAUN

Commissioner, Minnesota Department of Transportation

and

President of the American Association of State Highway
and Transportation Officials

March 7, 1985

Founded in 1914, AASHTO represents the departments concerned with highways and transportation in the States, the District of Columbia, and Puerto Rico, to foster the development, operation and maintenance of an integrated national transportation system. The active members of AASHTO are the duly constituted heads and other chief directing officials of the member highway and transportation agencies.

Mr. Chairman, my name is Richard Braun. I am Commissioner of the Minnesota Department of Transportation, and President of the American Association of State Highway and Transportation Officials. Accompanying me today are the Executive Director of AASHTO, Francis B. Francois, and AASHTO's Program Director responsible for public transportation, David Lee.

Mr. Chairman, we are pleased to respond to your request to provide our views on the surface transportation aspects of the Fiscal Year 1986 budget recently presented to Congress by the President. Like all Americans, those of us in the states responsible for meeting the transportation needs of our nation are acutely aware of the current federal budgetary problems. The escalating national debt is of concern to us, for many reasons, and we do not envy Congress the task before it to provide funding for necessary programs while coping with the debt and the problems it brings to our economy.

Before turning to specific comments on the budgetary recommendations for the Federal-aid highway program and the programs of the Urban Mass Transportation Administration (UMTA), we would like to provide some overview observations on transportation, its role in the economy and lifestyle of the United States, and the important need for all levels of government to invest adequately in transportation facilities.

The role transportation plays in modern America is often not deeply thought about, in large part because in recent decades we have come to accept good highways, air transport, railroads and public transportation as something "they" will provide and which will always be in place. Especially among younger Americans, we forget that these facilities were difficult to come by, and that their existence represents decades of hard work in both the public and private sectors, including great efforts by this Subcommittee, Mr. Chairman. We also need to be constantly reminded that public works constructed by man wear out, and that we must provide funds for rehabilitation and restoration if our transportation facilities are to meet our needs over the long run.

To understand the importance of transportation to this nation, we need to pause and think of an America without adequate highways, public transportation, airports and airlines, and railroads. The raw materials on our farms and from our mines could not move, nor could manufactured goods. The dispersion of economic activity across the nation made possible by the Interstate highway system would not have occurred, and millions of Americans would be leading very different, and poorer, lives. Nor would the personal mobility that is the hallmark of our democracy be possible, something that is simply unimaginable to today's Americans.

Without adequate highways motor carriers could not do their job, and traffic delays and accidents would be greater, and the quality of our lives lower. Looking at our cities, without public transportation millions of Americans would face a very different life style, both those who now use mass transit, and those on our highways who would suddenly face immense overcrowding and traffic gridlocks as people who now ride transit drove automobiles instead.

Turning to our nation's economy, we need to keep in mind that transportation is a major contributor to our gross national product. We have attached a copy of Table 15 from the publication titled "National Transportation Statistics", September, 1983 edition, published by the U. S. Department of Transportation, showing that in 1981 the personal expenditures of Americans for transportation in all sectors was over $260,000 million. In recent years, transportation outlays have constituted some 20% of our entire gross national product.

President Reagan, Congress and public officials at all levels in our nation recognize the need to expand the American economy, to provide needed jobs, help Americans in economic trouble to join the mainstream of our nation, and add to governmental revenues and reduce our need for deficit financing.

If this economic growth is to occur, the infrastructure needed to support it must first be provided. This is especially true for the transportation component of the nation's infrastructure, for transportation is essential to almost any economic activity. Looking at the transportation infrastructure of the nation, two very important components of it are our highways, and our public transportation systems, and both of these components are primarily the responsibility of government to provide.

Since highways and public transportation are primarily built and operated by government, it follows that if we are to adequately meet the needs in these two transportation modes, government must invest adequately in them. And at a time when our stated national goal is an expanded economy that demands expanded transportation to achieve, government as the primary provider of highways and public transportation has a responsibility to invest sufficiently in these facilities so that it is possible for us to reach that goal. In making our investment in transportation we must do two basic things. First, we must at the very least assure that current service levels are maintained, to handle existing traffic needs. Secondly, we must also take into account the new needs generated by growth in our economy, and shifts in how and where Americans live and work. In short, we must look not just to transportation needs as they exist today, but what Americans will need in the decades to come.

Mr. Chairman, given our national goal of economic expansion, the test that must be applied to the budget proposals before Congress is, "Will the budget recommendations for highways and public transportation assure that the Federal government will meet its responsibilities to provide the Federal share of the transportation infrastructure required to maintain and expand America's economy, and adequately support the style of life Americans want?"

We have carefully reviewed the budgetary recommendations for both highways and public transportation, compared them against what I and my fellow highway and transportation leaders in the states understand to be the needs, and with existing policies that have been developed by AASHTO. Based on that review, we have deep concern about what is being proposed in both of these modes. The proposed budget will not allow us to meet commitments made on the basis of the authorization levels promised by the Congress only two short years ago in the Surface Transportation Assistance Act (STAA) of 1982, and we seriously question if it will adequately support the expansion of the American economy that we all seek.

The STAA of 1982 was good legislation, but the levels of authorization it established were marginally adequate to meet the needs we face. Accepting those authorization levels, the Congress bit a tough political bullet and increased user fees to support the authorizations. Many state legislatures had already bit the same bullet and increased their revenues; many other states acted after passage of the STAA of 1982, to meet the new program levels. We have been collecting the new Federal user fees for some time, and have based our transportation programs on the promised levels of authorization. To now impose sharp cutbacks will mean that the pledges we collectively made cannot be kept, and that the Federal role in meeting our transportation infrastructure needs will decline significantly below the already minimum level set in the STAA of 1982.

Highways

Mr. Chairman, let me now turn specifically to the Federal-aid highway program. The first matter I would like to address with regard to this program is not truly on today's hearing agenda, but is so important that I must mention it. I am referring, of course, to the serious problems created in the past few years by the inability to have the Interstate Cost Estimate and the Interstate Substitute Cost Estimate (ICE-ISCE) approved in a timely manner.

When the ICE-ISCE is not timely approved, it causes severe disruption to the orderly process of constructing highways, both in the states and in the private sector. The public suffers needlessly, and significant damage is done to the priority concept and programming used by the states in the highway program. The resulting situation also has undermined overall support for and faith in the Federal-aid highway program, which we believe is unfortunate. We sincerely hope that problems with the ICE-ISCE can be ended.

We of course applaud Congress for approving an 18 month ICE-ISCE, which should at last free up some $7 billion in funds that have been idle. We hope Congress will now approve an ICE-ISCE for next year, well before this coming October 1.

Looking now at the budget, it proposes an obligation ceiling in the Federal-aid highway program of $13.25 billion for FY 1986. This is $1.2 billion below the obligation ceiling set in the STAA of 1982 for FY 1986, which as I have noted was commonly regarded when it was established as being a minimum acceptable level to meet the needs on the Federal-aid highway system. We have taken note that the Senate is proposing an even lower obligation ceiling of $12.75 billion, which would be $1.7 billion below the promise of the STAA of 1982.

Mr. Chairman, we in AASHTO have long opposed the concept of an obligation ceiling set lower than the authorized program, because it reduces the planned highway program and imposes what we believe are unnecessary and burdensome fiscal management requirements. Looking at the proposals now before us, we believe that both the $13.25 and especially the $12.75 obligation ceilings will adversely affect the promised Federal-aid highway program. We strongly support the higher levels of the STAA of 1982.

We note, Mr. Chairman, that these proposed lowered obligation ceilings do not constitute actual cuts in Federal spending, but rather are deferrals of expenditures that will ultimately occur from the Highway Trust Fund. To us, it makes more sense to expend those Trust Fund revenues as planned in the STAA of 1982, rather than to delay their expenditure; any delay acts to reduce the amount of highway construction and rehabilitation that the collected highway user fees will buy, and increases the exposure of the citizens to traffic congestion and accidents that might be avoided by following the planned program. Further, the delay in obligating Highway Trust Fund revenues increases the accumulation of user fees in the Trust Fund, an accumulation that undermines faith and trust in the Federal-aid highway program.

The question can and should be asked, "Can the states utilize the full authorization established for FY 1986 under the STAA of 1982?", and indeed your Subcommittee, Mr. Chairman, posed essentially that question to us a few months ago. In response to a request from your staff, we surveyed the states on their ability to utilize funding provided under the STAA of 1982, for both FY 1985 and FY 1986, assuming no constraints on the Federal-aid program such as are now proposed. We reported on that survey to you in a letter to Chairman Howard dated January 16, 1985, a copy of which is attached. It indicates that the states could fully utilize the funding promised for FY 1986 by the STAA of 1982.

There have been questions raised by some as to the ability of the states to match the funding provided in the Federal-aid highway program for FY 1986 under the STAA of 1982. Looking nationally, we do not see this as a problem. Like Congress, many states have acted in recent years to increase their highway revenues, both to meet the match for the Federal-aid program, and to carry out their other highway duties. We are advised that, nationally, adequate matching funds are available.

There is an assumption by some that the Federal-aid highway program could be reduced, as proposed, and that the states could then easily pick up the difference. It needs to be remembered that the state and local governments are already placing large resources in the nation;s highway system, and that indeed the Federal-aid highway program is providing only about 30% of the total funds spent on our roads and highways. That 30% is very important, however, for it is concentrated on the Interstate and primary highway systems, which carry most of the traffic and which in many states are beyond their ability to finance by themselves.

It also needs to be remembered that in recent years the states and local governments have been increasing their support for highways, at a greater percentage than has the Federal government. This is demonstrated by the attached Table IV, taken from a report on future directions for the Federal-aid highway system just completed by AASHTO. As is demonstrated by Table IV, our states and their local governments have recognized the need for increasing the level of investment in our highway infrastructure, a need that as I noted earlier must expand if we are to accommodate our goal of economic growth.

Returning to the budget, it contains another recommendation that affects the Federal-aid highway program, in that it proposes to fund Interstate transit substitute projects from the Highway Trust Fund. Mr. Chairman, the Association does not support this proposal, especially in light of the lowered obligation ceilings being proposed for the Federal-aid highway program. The STAA of 1982 considered the matter of how to fund both highway and transit Interstate substitute projects, and it was decided to use the Highway Trust Fund for the substitute highway projects, but to leave the transit substitute projects to the general fund. We believe that decision was correct.

Public Transportation

Let me now turn to public transportation. Mr. Chairman, one year ago AASHTO testified before this Subcommittee on surface transportation issues. We commended you for your role in the enactment of the STAA of 1982, including the changes made to the programs of the Urban Mass Transportation Administration. Our position remains the same.

As an overview comment on the recommendations for mass transit contained in the President's budget, we observe they would make major changes in the programs as established by the STAA of 1982. We believe that major changes in the mass transit program of the STAA such as terminating transit operating assistance, eliminating the discretionary grant program and creating a new formula capital grant program should be taken up in the context of new authorizing legislation which this Congress will be considering, and not as part of the budget process. We said last year that one of the great needs in the transit community was for a prolonged time of stability so that the operating agencies might adjust to changes already made in the Federal transit program, and we remain of that opinion.

Turning to the specifics of the Administration's budget for the Urban Mass Transportation Administration, we are very concerned that the proposal, if adopted, would be severely disruptive to our transit systems. For the record, AASHTO's current policies for public transportation recognize the need for a continuing role by the Federal government in capital and operating assistance. We also believe there is need to continue a discretionary capital grant program for extraordinary or emergency capital projects, as well as continued eligibility for new systems. An analysis of AASHTO's existing policies as they relate to the budget proposal is attached.

Mr. Chairman, we believe that the transit program has been targeted with an inordinate share of budget cuts, for while mass transit represents only 0.3% of the total budget it is targeted for 5.5% of total reductions. We are also not clear as to how the restructured program might function, in the absence of the availability of implementing legislation.

We recognize that it has been a goal of the Administration to eliminate transit operating assistance, but until now that goal has been accompanied by plans to phase out the assistance. Now, total elimination at once is proposed, which would be highly disruptive to the industry and state and local governments. We must question the prudence of this approach.

The Congress and indeed the Administration in appropriating transit funding over the past four years have instituted limitations on federal operating assistance which assure that there is control of the Federal role in this area, certainly more control than ever before. In so doing, there was no clear indication that total, at-once elimination of the assistance was planned. To now change to this approach would cause severe disruptions. The impact would be especially severe on the smaller systems, where in recent years much progress has been made.

It is true that some of the largest transit systems now count on Federal operating assistance as only a small percentage of their budget. But this is not true for many medium and small systems, where the Federal assistance they now receive is crucial to their continued existence. Before cuts like those proposed are accepted, a detailed review of the effects system-by-system should be made, and a national average not relied upon to measure the impact of eliminating operating assistance.

The states have already increased their involvement in public transportation, and are continuing to do so. But there are limitations on how much further they can go, and how soon. State aid for public transportation has increased by about $1 billion over the past two years, to a total of approximately $3 billion annually. We are providing with our testimony a copy of our "1984 Annual Survey of State Involvement in Public Transportation", which will provide you with considerable information on the current state role in this vital transportation mode. The Survey also shows the current level of support being provided by each level of government, as well as by user revenue.

Summary

Mr. Chairman, I repeat that AASHTO is fully aware of the national budgetary crisis faced by all Americans. We are not coming before you with a message of "we want more". Clearly, there are needs in each of our transportation modes that far outstrip the available resources of all our levels of government, and we cannot now meet them all.

Instead, our message is this:

- We must all take care to assure a balanced transportation system, one adequate to meet our needs.

- The Federal government should carry its fair share of the cost of our publicly-provided transportation infrastructure.

- If we are to meet our stated collective goal of growth in the nation's economy, we must maintain and increase our investment in transportation facilities.

- The bargain struck between the American people, the Federal and state governments, and highway users in the STAA of 1982 was a good one for both highways and public transportation, and we should keep our commitments to all concerned.

- Because the Highway Trust Fund is pay-as-you-go, and indeed is really pay-before-you-go, it is not a part of the Federal deficit problem; rather, it is a tool that can be used now to help provide the transportation infrastructure necessary for the economic growth we want.

We know that Congress must make tough decisions. We have offered you our professional advice on the situation, Mr. Chairman, and stand prepared to provide any further information that might assist you.

Mr. Chairman, we also want to express our appreciation to the Subcommittee for its efforts in seeking to place the Highway Trust Fund outside of the federal budget, where it truly belongs. The money flowing into this Trust Fund from user fees ought to be fully expended on the highway and transit purposes for which it was collected, and not used to balance the bottom line of the combined Federal budget. We remain hopeful that Congress will ultimately accept this understanding of the Highway Trust Fund, and allow it to function as was intended and promised.

We hope that whatever decision is made on the budget, that it will be fair to the American people in general, and to our transportation needs in particular. Last week, the National Governors' Association gave its support to a budgetary freeze, as one possible alternative for Congress to consider. This approach would be better than the budget now proposed, if the obligation ceiling for the Federal-aid highway program is set at the $13.25 billion level called for in the President's budget rather than the $12.75 level called for by the Senate, and if the mass transit program is in effect frozen until such time as Congress considers a new authorization bill. But an even better approach would be to meet the commitments made just over two years ago in the STAA of 1982.

Mr. Chairman, we want to thank you for this opportunity to provide you with the views of AASHTO, and we will be pleased to respond to any questions.

Table 15. Personal Consumption Expenditures by Transportation Sector, 1971-1981
(Millions of Dollars)

Item	1971	1972	1973	1974	1975	1976ʳ	1977ʳ	1978ʳ	1979ʳ	1980ʳ	1981
Transportation Total*	94,421	105,382	114,576	117,924	129,367	155,189	179,328	198,109	219,446	239,543	260,773
User-Operated Transportation											
Total	87,506	97,792	106,443	108,762	119,663	114,103ʳ	153,112	166,690	189,107	211,137	230,131
New Cars and Net Purchases of Used Cars	34,096ʳ	38,239ʳ	41,243ʳ	34,763ʳ	38,224ʳ	49,974	57,460	63,115	64,809	60,628	67,209
Tires, Tubes, Accessories and Parts	7,108	7,970	8,939	9,639	10,528	11,745	13,451	14,699	16,866	19,027	21,003
Repair and Rental	12,653	13,779	14,657	15,885	18,781	21,266	25,054	28,057	31,194	33,919	35,127
Gasoline & Oil	23,888	25,432	28,635	36,608	40,390	43,973	48,126	51,242	66,596	86,953	96,783
Tolls	702	763	803	782	817	861	901	917	891	865	888
Insurance Premiums Less Claims Paid	4,864	5,407	5,240	5,059	3,862	5,431	8,120	8,660	8,771	9,745	9,121
Purchased Local Transportation											
Total	3,260	3,440	3,460	3,683	3,990	4,375	4,660	4,991	5,429	6,021	6,813
Street, Electric, Railway and Local Bus	1,681	1,690	1,724	1,848	1,905	2,074	2,208	2,325	2,494	2,629	3,199
Taxicab	1,403	1,573	1,556	1,635	1,879	2,077	2,222	2,426	2,670	3,096	3,264
Railway (commutation)	176	177	180	200	206	224	230	240	266	297	350
Purchased Intercity Transportation											
Total	3,655	4,150	4,673	5,479	5,714	6,711	7,665	8,531	10,033	12,325	13,480
Railway (non commutation)	184	214	241	316	308	342	350	337	407	464	520
Intercity	575	585	610	691	677	681	716	739	875	1,052	1,138
Airline	2,694	3,108	3,533	4,137	4,375	5,271	6,101	6,901	8,067	10,003	10,885
Other	202	243	289	335	354	417	488	554	684	806	937

* Includes other motor vehicles
ʳ = revised
Source See Appendix A, p 191

TABLE IV
TOTAL FEDERAL-STATE-LOCAL HIGHWAY EXPENDITURES
(BILLIONS)

Year	Federal	State	Local	Total
1965	$ 4.1	$ 7.1	$ 2.3	13.5
1970	5.2	11.0	3.4	19.6
1975	7.2	14.3	5.7	27.2
1980	12.0	19.0	9.0	40.0
1982	10.5	20.0	8.4	38.9
Overall Increase	155%	183%	271%	189%
Per Year	5.7%	6.3%	7.9%	6.4%

Source: Federal Highway Administration Statistics

The data presented in Table IV represents the total expenditures made on all highways both on and off the Federal-aid Highway System, and includes maintenance, operations, and capital improvements. The major point of this table is to demonstrate that federal, state and local governments devote substantial financial resources to all our nation's highways, not just the Federal-aid System, and that state and local governments together have by far the greatest share in total highway expenditures.

AMERICAN ASSOCIATION OF STATE HIGHWAY
AND TRANSPORTATION OFFICIALS

RICHARD P. BRAUN, President
Commissioner
Minnesota Department
of Transportation

FRANCIS B. FRANCOIS
Executive Director

January 16, 1985

The Honorable James Howard, Chairman
Committee on Public Works & Transportation
2165 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Howard:

In response to a request from your Committee staff, we have been surveying the state departments of highways and transportation in an effort to determine their capability to utilize funding in the Federal-aid Highway program during FY 1985 and FY 1986. We are now in a position to respond to your request.

Our survey was divided into two parts, and we have now compiled information for 50 states. The two parts of the survey are as follows, and a summary of the responses is provided under each heading.

Part I: Expected Levels of Obligation

Survey Question I:

"Please provide the totals of what you have obligated and are prepared to obligate in the following categories during FY 1985, and an estimate of the totals you are prepared to obligate for FY 1986, assuming: (1) full funding of the authorization levels provided in the STAA of 1982; (2) approval of an ICE and ISCE before April 1, 1985; and (3) adequate state matching funds."

Survey Results (Aggregated):

Program	FY 1985 (millions)	FY 1986 (millions)
Interstate Completion	$ 4,164.4	$ 4,195.0
Interstate 4R	$ 2,770.9	$ 2,825.2
Interstate Discretionary	$ 820.0	$ 869.6
Interstate Substitute Highway Projects /1	$ 701.2	$ 585.3
Primary	$ 2,499.8	$ 2,478.8
Secondary	$ 577.9	$ 678.0
Urban	$ 844.7	$ 825.5
Bridge Rehabilitation	$ 1,566.9	$ 1,709.0
Bridge Discretionary	$ 351.9	$ 444.7
Safety	$ 436.6	$ 382.6
Other	$ 805.1	$ 833.2
Total	$ 15,499.3	$ 15,800.9

/1 Within the 75% formula portion of this category, not the full 100% authorization.

With respect to the survey results under Part I, it is noted that the Interstate Discretionary and Bridge Discretionary categories both total an amount of funding in FY 1985 and FY 1986 in excess of what is expected to be available nationally. This reflects the desire of several states to utilize discretionary funding, and indicates the competition that will exist for those funds that do become available. The "Other" category totals in FY 1985 and FY 1986 are also large, but this in part reflects the 85% minimum return funds authorizied for distribution to a number of states under the Surface Transportation Assistance Act (STAA) of 1982.

Returns from two of our 52 member departments have not been received. We estimate that the "Total" amount in the above table would be somewhat greater in both FY 1985 and FY 1986 if these two departments were also included.

Part II: ICE and ISCE.

In this part of our survey, we endeavored to determine the impact on the Federal-aid Highway program resulting from the absence of an approved Interstate Cost Estimate (ICE) and Interstate Substitute Cost Estimate (ISCE). As you are aware, the lack of an approved ICE-ISCE also acts to prevent certain other allocations to the states, including funds under the 85% minimum return provisions of the STAA of 1982. In all, the Federal Highway Administration estimates about $7.2 billion is involved.

A number of states had Interstate projects ready to let to contract between October 1, 1984 and February 1, 1985, if an approved ICE-ISCE had been available on October 1, 1984. In our survey we asked the following question regarding such possible contract lettings:

"Please list the number of projects delayed in your state that could have gone to contract between October 1, 1984 and February 1, 1985, if Congress had aproved an ICE-ISCE before October 1, 1984."

Based on responses from 50 states to this question, 239 delayed projects have been identified that have a total estimated value of $1,262.5 billion. Again, all of these 239 projects could have been under contract by February 1, if an ICE-ISCE had been approved by the 98th Congress.

The Congressional situation is such that no approved ICE-ISCE is apparently possible until sometime in February at the earliest, and a delay well beyond that date is possible. To determine the impact of delayed ICE-ISCE approval month-by-month in 1985, we asked the following question and record the responses indicated.

Survey Question II:

"The earliest an ICE-ISCE bill can be approved is probably late February, 1985, and it is possible it might not be approved until much later in the year. Please estimate the impact on your state resulting from the listed dates for passage of an ICE - ISCE bill, taking into account your total planned highway program for FY 1985:"

2. "Please list the total number of projects you plan for construction during FY 1985, based on your response to Part I:"

Survey Results (Aggregated): 9,919 Projects

3. "Using the project total of Question II-2 as a basis, please complete the following table:"

Survey Results (Aggregated):

Assumed Date When ICE and ISCE Become Enacted	Resultant Number of FY 1984 Projects Delayed	Estimated $ Value of Delayed Projects (Millions)
February 1, 1985	239	$ 1,262.5
March 1, 1985	383	1,596.6
April 1, 1985	518	1,984.1
May 1, 1985	675	2,602.0
June 1, 1985	796	2,968.7
July 1, 1985	976	3,125.0
August 1, 1985	997	3,298.0
September 1, 1985	1,082	3,509.6
October 1, 1985	1,174	4,052.2

Note: Of the 50 member departments reporting to date, five report the lack of an ICE-ISCE through October 1, 1985 would delay no projects. In four of these five departments, delays will be avoided by using the Advance Construction Interstate (A.C.I.) procedure.

It should also be observed that some states beyond the four noted above have been using the A.C.I. process already in FY 1985, which has somewhat reduced the overall impact of the delay in obtaining an approved ICE-ISCE. This means that these states have funded Interstate projects with 100% state funds, anticipating being able to pay back the Federal share to the state treasury at a later date.

In our survey, we also asked our member departments to briefly describe how any delayed projects will affect their overall program, and any significant related effects upon the state. We received many replies to this request, but before turning to them an overall observation is in order.

In FY 1984 the states had only a six month approved ICE-ISCE, which came about six months into the year and left some $2 billion in Interstate funding unavailable for obligation. Nevertheless, by agressively reprogramming their Federal-aid categorized projects and drawing down on unobligated funds remaining from earlier years, the states collectively were able to utilize the full obligation ceiling established for FY 1984. Thus, all available Federal-aid Highway obligation authority was utilized last year.

The 1984 reprogramming was not done without cost, however. Several critically needed highway projects had to be delayed because of lack of an approved ICE-ISCE, and lower priority projects were substituted in their place. Further, the increased demands for state matching funds because of higher federal-state matching ratios for the substituted projects placed strain on several state highway programs, and resulted in delaying some state funds-only projects. Delayed programming also resulted in many disruptions and delays in bidding schedules, adversely affecting contractors and their suppliers.

Looking at FY 1985, we believe it will not be possible for the states to repeat this 1984 reprogramming effort. This will occur because remaining unobligated balances are too low for sufficient reprogramming to be possible, and because many states have now exhausted their back-log of available substitute projects in other Federal-aid Highway program categories. Thus, a full ICE-ISCE for FY 1985 is needed.

Turning now to specific state comments on the effect of a delayed ICE-ISCE, the following were obtained from our survey:

Survey Question 3:

3. "Please describe briefly how any delayed projects will affect your overall program, and significant related effects upon your state."

Survey Results:

Most of the member departments responding to the survey provided comments regarding the effect of the delay in ICE-ISCE approval on their state. The responses are grouped by the four AASHTO Regions, which are comprised as follows:

Region I	Region II	Region III	Region IV
Connecticut	Alabama	Illinois	Alaska
Delaware	Arkansas	Indiana	Arizona
Maine	Florida	Iowa	California
Maryland	Georgia	Kansas	Colorado
Massachusetts	Kentucky	Michigan	Hawaii
New Hampshire	Louisiana	Minnesota	Idaho
New Jersey	Mississippi	Missouri	Montana
New York	North Carolina	Nebraska	Nevada
Pennsylvania	South Carolina	Ohio	New Mexico
Rhode Island	Tennessee	Oklahoma	North Dakota
Vermont	Virginia	Wisconsin	Oregon
District of Col.	West Virginia		South Dakota
Puerto Rico			Texas
			Utah
			Washington
			Wyoming

Region I Responses

Connecticut
Scheduling problems will arise as the Department must assign limited manpower to various projects. At this point, we can not be certain that completing the design and acquiring rights-of-way for Interstate and Interstate Trade-In projects will lead to the obligation of the Federal-aid construction projects in a timely manner.

Delaware
Delaware DOT has completed our Interstate construction. We need the excess Interstate to supplement our Primary and Urban programs. Will the balance of the FY'85 Interstate funds have to be authorized by the end of FY'85? Following past procedures, we need 2-3 months to "transfer" Interstate to "excess" Interstate as the approval must go through Washington office of FHWA. We need ICE before July 1 to ensure use in FY'85.

Maryland
Continued delay in approval of the Cost Estimates may result in a situation where our cash flow projections show an adverse impact on our trust fund balance. If this occurs, then projects would have to be delayed, with the resultant probability of increased construction cost due to inflation. Our construction program would be adversely effected and the public interest would not be best served.

Another important factor for Maryland is receiving adequate Obligation Authority. Our program requires $340 million in Obligational Authority, while our current ceiling is $285 million. This will become a critical issue if additional authority is not received with the approval of ICE and ISCE funds.

New Jersey

Due to the fact that New Jersey's apportionment balance is now zero, failure to receive additional Interstate funds will have a serious impact on completion of the I-287 gap and the I-295 gap (Trenton Complex). Both of these projects are deemed essential to the economic well-being of the State. Failure to move additional Interstate Substitution funds where the State's apportionment balance is also zero, will seriously delay a number of important local projects. This delay could cause local jurisdictions to proceed with their own funds because of the importance of the individual projects thus invalidating the State's entire Concept Plan.

Pennsylvania

The Department is committed to completing construction of the Interstate System I-279, I-579 in the Pittsburgh area by mid 1987 and I-78 in the Allentown area by late 1988 with the Philadelphia Interstate to be completed in 1989. Although we will be able to A.C.I one or two sections of Interstate this year, a delay in the approval of an I.C.E. beyond April 1985 can set our completion schedule back as much as a year. In addition to the inconvenience to the general public, perhaps as many as 16,000 jobs (an estimated 75 jobs per $1 million of construction cost) would be temporarily unavailable.

Rhode Island

Without the availability of Interstate Transfer Federal funding for Fiscal Year 1985, Rhode Island's program level of $166.0 million will be reduced to $57.9 million, a 65% reduction.

Additionally an Advance Construction project for Jamestown Bridge companion funding must be converted to Interstate Transfer funding which will require $9.6 million of Federal funds in this category.

Vermont

Our current operating schedule is predicated on Interstate completion funds being available for use on primary, secondary and urban projects. If these funds are made available during FY 1985 there will not be a major effect on our program. However, if the ICE is not approved during FY 1985 it will be very difficult to obligate sufficient funds to utilize all of our FY 1985 Obligational Limitation. We already have approximately $40 million of apportionments that cannot be obligated because of insufficient Obligational Authority. If we cannot utilize all available obligational authority during FY 1985 this backlog of apportionments will get even larger and both our planned FY 1985 and FY 1986 programs will suffer.

Region II Responses

Alabama
The state authority to utilize ACI obligation authority will enable the program to be continued through August 1985. Without any interstate apportionment by August 1985, no additional work can be authorized. A financial burden will be imposed on the state at this time.

Arkansas
While the Interstate fund availability is not as critical to the Department's scheduling of projects, we are, however, planning to utilize the 85% floor funds to finance critical needs statewide which are presently not funded. Delay in passage of the ICE places the Department in the position of using "stopgap" measures to maintain these roads in the interim.

Florida
Any delay to state's transportation program is serious. It not only delays needed construction, it also has a devastating effect on construction firms, equipment and material suppliers, and transporters of construction materials. Associated industries will also suffer economic loss. Unemployment within the State will increase.

Overall, any delay will result in a general economic loss for the entire State. Furthermore, the present uncertainty limits our ability to forecast manpower needs, analyze and forecast State fund matching requirements, etc.

Finally, the delay in release of Interstate funds has cast a shadow over the probability of our completing the State's Interstate highways within the presently mandated time frame.

Georgia
The delay in congressional approval of the ICE-ISCE has and is causing a costly delay in the completion of the Interstate System in Georgia. All work remaining is to be done under traffic and the department had developed a construction schedule and sequence of traffic control that would cause a minimum disruption and safety hazard to the motoring public and at the same time place the work under contract on a timely basis where many of the contracts require coordination with adjacent contracts. This is particularly true in the reconstruction of the remaining 2.4 mile section of I-75 in downtown Atlanta, as work is underway adjacent to both ends of the project and, in the interest of safety to the motoring public, it is imperative that the remaining work be let as soon as possible. All preconstruction activities are complete that would allow construction contracts by February 1985.

Kentucky
State has elected to prefinance Interstate projects rather to delay letting them to contract. The amount of earned-unbilled dollars accruing on prefinanced projects will reduce our overall program due to a reduction of interest earned on our state road fund dollars.

Mississippi

If the ICE-ISCE bill is passed in May, 1985, the overall highway program in Mississippi will be delayed two months. This delay in awarding a contract will cause the contractors to miss a major portion of the construction season, thereby causing as much as a year's delay in the completion date of the project.

Mississippi is in immediate need of $7 million to complete the funding for Interstate right-or-way acquisition. The delay in this funding may cause problems far into the future. Mississippi also has a need for Interstate funds to cover projects which are in the final stages of completion and have had overruns in the original construction estimates. This has caused a draw-dowm of State funds at a critical time.

North Carolina

If the ICE/ISCE is approved by late March 1985, the effect on North Carolina will be minimal. Approval of the ICE beyond June 1985 will begin to have a major adverse impact on the orderly completion of the Interstate System within the State. Also, the Congressional delay in approving the ICE/ISCE has delayed the apportionment of the minimum allocation (guaranteed 85% return funds) federal-aid highway funds. North Carolina has plans ready for use of these minumum allocation funds; thus several critically needed urban and primary highway improvements cannot be let to contract.

South Carolina

South Carolina has prefinanced one Interstate project for over $18 million. This action ties up valuable state matching funds. The use of these state matching funds could adversely affect the balance of the Federal Aid program. Therefore, delays could postpone high-cost projects that are very much needed in South Carolina to relieve traffic conditions--not only in the Interstate program, but also in other Federal Aid programs.

Tennessee

Our original plans called for the first quarter obligation of approximately $20 million of these funds. Significant delays beyond this time frame will result in the loss of the major portion of our construction season, thus postponing the completion of these projects approximately one year.

Virginia

Virginia's Six-Year Improvement Program envisions having all segments of the incomplete Interstate system under construction by 1990. The delayed projects will not only have an immediate impact on the job market but will negatively affect the necessary staging required to accomplish our program on time.

West Virginia

Except for about $40 million in paving contracts the Interstate projects included in our forecast will complete the system in West Virginia. Obviously, any delay is a postponement of this important milestone, and means a delay in providing the convenience and economic benefits that come with the opening of new Interstate routes.

Region III Responses

Illinois

To date Illinois has proceeded with 36 projects costing $30 Million using advance construction procedures. Cash flow restraints will limit continuation of these procedures. Therefore as indicated in Part II over 100 projects worth over $150 Million could be delayed between now and May 1985. These delays also prevent proportional distribution and advertisements for construction bids, and will result in larger size of bid lettings when funds are released with likelihood of highway project by project bids. Delays beyond April 1 will also impede completion of many projects during the upcoming construction season.

Indiana

The projects that will be delayed represent approximately 19% of our construction program and will delay a number of this State's priority programs. In addition, the uncertainty on the receipt of federal funding creates a severe problem in obtaining adequate funding levels from this State's legislative body.

Iowa

1. Purchasing power will be reduced a minimum of 5 percent due to inflation during the delay period.
2. Benefits expected from the improvements including public safety and operating costs are lost during the deferral period.
3. Contractor's bids are likely to be higher in the spring than in the winter because:
   - Competition will be less.
   - Materials and equipment will be more difficult to acquire.
4. Personnel have been assigned to design and prepare these projects for construction. This personnel investment could have been working on other categories; however, it is too late to shift work activities at this time.

Kansas

The $34 million shown for FY 1985 for Interstate Completion consists of the balance of FY 1985 apportionment (either $9 or $12 million depending on the Table 5 used) and $22 million in new FY 1986 funds. These reflect federal funds only.

As the following table shows, Kansas has obligated nearly $30 million more in federal Interstate funds for Interstate completion than we would have anticipated from the ICE process alone.

FY 1984, FY 1985 Summary (millions of federal dollars)

Est. Apportionments	
FY 1985 funds for FY 1984	$24.0
FY 1986 funds for FY 1985	23.0
Total Available	$47.0

Funds Obligated	
1/2 FY 1985 funds	$15.0
ACI	10.0
FY 1984 Discretionary	28.4
FY 1985 Discretionary	14.4
Total Obligated	$75.8

Should an ICE be approved, we estimate we would have either $22.0 or $25.0 million available. (See table below). Whether we could use it or not could depend upon timing and availability of additional obligation ceiling. As the year goes on without approval of an ICE, we will continue utilizing our obligation authority on balances in other fund categories.

Balance of FY 1985 funds	$ 9.0	$12.0
New FY 1986 funds	23.0	23.0
Amount Available	$32.0	$35.0
Minus ACI	10.0	10.0
Available for new work	$22.0	$25.0

We will let approximately $16.0 million in programmed completion projects during this fiscal year using our discretionary funds. These are projects that we have announced as being part of our firm improvement program. We are considering ACI for the remaining projects (approximately $10 million federal).

Michigan
Michigan's economic recovery, in which the Transportation Industry has a great impact, will be affected by the number of jobs not created (nearly 5,000); by the road improvements not accomplished, and by the commitments made by this Department and not kept because of the lack of construction funds. Nearly $200 million of Federal-aid due to us in Fiscal Years 1984 and 1985 have not been released and this is delaying the improvement of many needed and worthwhile sections of Michigan's highway network system.

Minnesota
A delay in Interstate and Interstate Substitition cost estimate approval until October, 1985 will jeopardize $107.3 million in highway contract lettings and approximately 4500 jobs. A delay beyond April, 1985 will likely set completion of our Interstate System back one year. We have already reached the limits of our capacity to fund Advance Construction Interstate work ($55 million) and are facing the cash flow consequences of tardy conversions to regular 90-10 funding.

Missouri
Delayed projects will contribute to an overall delay for completion of the Interstate System particularly 3.8 miles of staged construction on Route I-435 in Platte County, completion of viaduct on Route I670 in Jackson County and completion of the Mississippi River Bridge on Route I-255 in St. Louis County, Missouri, and Monroe County, Illinois. Eight miles of paving is delayed on a completed grading and bridge section of Route I-435 in Platte County.

Nebraska
Certain jobs are delayed an entire construction season along with economic impacts such as job creation, material purchases, and flow of dollars into local economies. These delays prolong the accomplishment of FY-85 construction program until FY-86 and causes concentrated cash flow on a shortened season by delaying beginning dates several months. Project delays promote uncertainties with regard to scheduling workloads for both contractors and state highway departments.

Ohio
When the ICE and ISCE funds are finally released, there will be great pressure to let to contract the delayed projects and current projects all within a very short time span. The delayed ISCE projects are all located within the Cleveland metropolitan area and the I projects are largely concentrated in the Columbus area. The result may be higher than normal pricing by the contractors, thus increased project cost. Of course, the negative impacts will also include the ever present inflation related cost increases and the indirect costs of delaying the availability of the highway improvements to the traveling public.

Oklahoma
Our Interstate construction program will be the first affected by a delay in Congressional approval of the ICE/ISCE. More specifically, it could delay the construction of I-235 (Central Expressway in Oklahoma City) as much as a year if the ICE/ISCE isn't approved until Oct. 1, 1985. In addition, our primary Federal Aid construction program will begin to suffer in August of 1985 as this is the point in time we would have begun to use Minimum Allocation funds to supplement the primary funds and, as you know, these funds have been delayed because of non-approval of the ICE/ISCE.

Wisconsin
As a policy decision, we are going to complete all new Interstate Construction with Interstate Rehabilitation funds. When the ICE is finally passed, we will then be able to convert all of the I funds to IR, since we will be a 1/2 of 1% state.

Because we have decided to finish the Interstate Construction program in Wisconsin with the Interstate Rehabilitation funds, we will reduce the Interstate Rehabilitation program in 1985 by a like amount.

A major impact in Wisconsin involves the non-receipt of the Minimum Allocation funds in 1984 for use on the state's primary, secondary and bridge programs. It was necessary to go to advance construction (ACF) to accomplish a reasonable program in 1984. This action resulted in a delay of some 1985 projects because of the conversion of the 1984 ACF projects to a normal project. We do not plan to continue this policy in view of the non-receipt of federal aid and our limited state funds.

Region IV Responses

Alaska

Six construction projects and two design projects are effected by the ICE. In addition, approximately $400,000 of HPR funds are also yet to be apportioned to this state, pending passage of the ICE.

Arizona

1. Delay to date has drastically disrupted the state's programming process.
2. Continued delay will seriously impact the state's ability to have all Interstate projects underway by the statutory deadline.
3. Delay in apportionment of Interstate funds will require carry over of ACI projects, thus tying up state funds programmed for other projects.

California

Delaying passage of the ICE-ISCE bill after February 1985 will have an adverse effect in California:

- The first major project on the John T. Knox Freeway (I-580, $34 million) will have to be delayed causing a delay to the entire $200+ million project.
- If not enacted until after July 1, 1985, another four projects will be delayed and if not enacted this Federal Fiscal Year, $168 million in projects will be delayed affecting the ultimate completion of the Century (I-105), John T. Knox (I-580) and Norco (I-15) Freeways.

In addition, several adverse side effects will be encountered:

- Without the ICE-ISCE, California will not receive its remaining allocation of 85% funds which have been programmed and will be needed to keep other non-interstate projects going.
- Final distribution to local agencies of metropolitan planning funds (1/2%), which cannot be made without the remaining 1985 Fiscal Year interstate funds. This will cause problems at the local level (approximate short-fall: $2.2 million in a $9 million program!)

- The HP&R funds are also tied to ICE-ISCE. California has not received the remaining FY'85 HP&R funds attributable to interstate apportionments, nor have any HP&R funds related to FY'86 been received. If Congress doesn't act by June-July 1985, we'll have to carry out our work programs using State money, if available.

Idaho

The delay of projects as a result of withheld Interstate funding affects Idaho as follows:

-- Shift of resources (Manpower, etc.) to other non-Interstate projects, thus delaying the development of Interstate projects.
-- Extends target date set by Congress for completion of the Interstate.
-- Delay of highway planning and research funding.
-- Negative economic impact due to loss of construction activity and jobs.

Montana

Any delays in the letting of Interstate projects scheduled in FY 1985 will cause completion of some importation Interstate sections to be delayed. If no ICE is passed during FY 85, Montana would have to put the federal obligation authority on other projects located on other highway systems. Since we do not have sufficient projects ready to do this, we would wind up losing federal obligation authority this fiscal year. Also, Montana has been financing a number of projects through the ACI provisions—delay in passage of an ICE means that we cannot convert these projects to federal funding and will have to carry them with state funds longer than we anticipated.

New Mexico

Interstate construction completion in New Mexico was accelerated by using ACI funding - delay in Congressional approval of the ICE and delay in Interstate funding would result in delay of pay-back of advance funding to the State General Fund. No significant impact related to delay of Interstate construction projects in New Mexico.

Nevada

The five delayed projects are the total number required to complete Nevada's Interstate System (other than Bond Redemption Conversion). The delay increases the estimated costs relative to the inflation rate. More importantly, it causes motorists to use unsafe sections of the Interstate System which increases user costs and chances of accidents.

Oregon

Delayed projects will reduce our construction season and be disruptive in the areas of resource management and manpower forecasting as well as general planning and program activities. Lengthy delay will severely impact Oregon's economy through last highway user benefits plus a slowdown in the construction industry and related business.

South Dakota

South Dakota's 1985 construction program will be decreased by $24.637 million ($19.153 million Federal Funds) which means that many needed projects will be delayed.

Texas

The State Highway and Public Transportation Commission has elected to proceed with the Interstate construction schedule, financing the work with 100% state funds as Advance Construction Interstate (ACI) projects. We will continue this method of financing until such time as the Congress passes the Interstate Cost Estimate (ICE) or until the level of funding has reached that amount equal to our anticipated Interstate apportioment of Federal funds. Federal regulations prohibit authorizing any ACI projects over that amount originally received in Interstate funds. If the ICE does not pass in FY 1985, continued 100% State funding would have to be reassessed based on our anticipated cash flow in FY 1986.

Washington

WSDOT's interstate apportionment balance is totally obligated. If the ICE is not approved before March 1, 1984, it will conceivably cause a one-year delay in our present interstate completion schedule. Other impacts of construction delays to be considered are the loss of purchasing power of the construction dollar through inflation and the immediate impact on employment and economic activity to the state. WSDOT is also extremely concerned about the effect of obligation controls on the ability to use apportioned funds and consequently on needed construction work. We strongly urge full obligation authority to conincide with the apportionment.

Wyoming

Wyoming has completed its Interstate system and is now using the regular Interstate funds for 4R work on the Interstate system. The fiscal '85 Interstate 4R apportionment received on October 1, 1984 will provide sufficient funds for 4R projects scheduled through the August 1985 letting. However, a delay in the Interstate apportionments beyond August will cause the postponement of essential rehabilitation work.

Summary

On the basis of the information developed in our survey, it appears that the states are in a position to essentially fully utilize the $13.2 billion obligation ceiling set for the FY 1985 Federal-aid Highway program, if a full ICE-ISCE is approved early in 1985. There have already been significant delays in getting projects underway because an approved ICE-ISCE has not been available, which have had adverse impacts on our member departments' ability to meet their highway program schedules, caused an unusually low rate of obligation thus far in FY 1985, and delayed the creation of a considerable number of jobs in the construction industry. The longer the approval of an ICE-ISCE is delayed the worse the situation will become, as the information provided under Part II makes clear.

We are hopeful that the Congress will quickly approve a full ICE-ISCE, including the balance of FY 1984 and all of FY 1985. A resolution passed by our Policy Committee on December 9, 1984 to that effect is attached, for your infomation.

Beyond that, noting that nearly one-fourth of this fiscal year has passed and that the start of FY 1986 is not far away, it would appear desirable to do everything possible at this time to assure that the same ICE-ISCE approval situation does not result six months from now on July 1, when the Federal Highway Administration is charged with providing advance notice to the states of their estimated apportionments for FY 1986, which are scheduled to be released October 1. An important factor in having an effective, well planned Federal-aid Highway program for the nation is the assurance of continuity in funding, so that state budgeting and programming efforts can proceed in an orderly manner, and to enable the construction industry to make timely major investment decisions that will assure both quality work and competitive prices. The enclosed resolution also suggests that the ICE-ISCE process be changed to prevent the problems of 1984 and 1985 from being repeated.

If we can be of any further assistance, please do not hesitate to let us know.

Very truly yours,

Frank Francois

Francis B. Franccis
Executive Director

FBF:sh

AMERICAN ASSOCIATION OF STATE HIGHWAY
AND TRANSPORTATION OFFICIALS

RICHARD P. BRAUN President
Commissioner
Minnesota Department
of Transportation

FRANCIS B. FRANCOIS
Executive Director

AASHTO RESOLUTION REGARDING THE ICE-ISCE SITUATION

1. WHEREAS Congress has established a national goal of completion of the National System of Defense and Interstate Highways by 1990; and

2. WHEREAS Congress in the Surface Transportation Assistance Act of 1982 (STAA) increased the federal motor fuel tax from 4¢ to 9¢ per gallon to insure adequate funding for completion of the National System of Defense and Interstate Highways, Interstate transfer projects, and the 85% Minimum Allocation program, among other purposes; and

3. WHEREAS Congress has authorized funding for completion of the National System of Defense and Interstate Highways; and

4. WHEREAS the Federal Highway Administration has been unable to distribute to the states the authorized funding for construction of the National System of Defense and Interstate Highways, funding for Interstate transfer projects and funds under the 85% Minimum Allocation program, due to the lack of approval of an Interstate Cost Estimate (ICE) and Interstate Substitute Cost Estimate (ISCE); and

5. WHEREAS this lack of approval of an Interstate Cost Estimate and Interstate Substitute Cost Estimate has resulted in $7 billion previously approved for Interstate construction being frozen and unavailable for use even while states are ready to build remaining critical gaps in the Interstate System and approved Interstate substitute projects, and utilize funding under the 85% Minimum Allocation program to meet other critical highway needs; and

6. WHEREAS the continued freezing of this $7 billion will delay needed projects, disrupt state programs and delay the creation of some 200,000 jobs and other economic benefits promised by the Surface Transportation Assistance Act of 1982, and result in the unnecessary prolongation of highway safety hazards and traffic congestion for thousands of Americans; and

7. WHEREAS a survey of 43 states just completed by the American Association of State Highway and Transportation Officials (AASHTO) has identified 219 highway projects that would have been placed under contract by the states before February 1, 1985 if an approved ICE and ISCE had been available before the 98th Congress adjourned, the total value of these delayed contracts being in excess of $1,214.5 million; and

8. WHEREAS the AASHTO survey of 43 states also revealed the dramatic impact further delay in approving the ICE and ISCE will have on the states on a month-by-month basis in 1985, resulting in a growing breach of trust with the highway users who are daily paying revenues into the federal Highway Trust Fund that are now essentially impounded by the lack of an approved ICE and ISCE:

NOW THEREFORE BE IT RESOLVED that the member departments of the American Association of State Highway and Transportaton Officials call for immediate Congressional action in the 99th Congress in this critical situation, to enact legislation that will:

(1) Approve an ICE and ISCE that will allow funding for these programs to be released immediately, and which will not compromise the integrity of the federal Highway Trust Fund.

(2) Permit the Federal Highway Administration to develop in cooperation with the states all future cost estimates unless Congress has acted prior to the expiration of the previous cost estimate.

(3) Recognize that, in the interest of meeting the immediate need to pass an ICE and ISCE, projects identified in H.R. 5504 and S.3024 of the 98th Congress should be dropped from consideration, and no new issues should be added.

BE IT FURTHER RESOLVED, that copies of this Resolution be sent to the appropriate Committees of Congress, the Secretary of Transportation of the United States and other interested parties.

Moved and approved by
the Policy Committee on
Dec. 9, 1984 by more
than the required
two-thirds majority vote
of all states.

AASHTO POLICY POSITION	FY 1986 BUDGET PROPOSAL
PUBLIC TRANSPORTATION	
Discretionary Grants	
A discretionary capital assistance program should be retained for extraordinary or emergency capital projects including nonurban areas where no other source of federal capital funds is available.	No further funding for the Discretionary Grants program.
Funding Level	
The federal government is encouraged to continue to carry out its long standing policy of federal, state and local partnership with respect to public transportation financing. Maintenance of this policy requires program funding at current or expanded levels and the ability to continue to utilize federal funding for operations.	$1.1 billion for a formula capital grants program.
Operating Assistance	
Uses of Section 9 funding should include: (1) vehicle rehabilitation, replacement and fleet expansion, (2) facility construction and rehabilitation, (3) operating costs up to a limit of 50 percent of net operating costs, (4) ridesharing, paratransit and other special services and facilities, and (5) planning. Federal financial assistance for nonurbanized public transit purposes should continue to be channeled through the states and that the decisions on how best to allocate the assistance be made at the state level. Such decisions include the distribution of funds within the state as well as dividing the assistance between capital, operating and administrative projects.	No federal funding for transit operating costs.
New Starts	
New fixed guideway systems should continue to be eligible for federal assistance where they are shown to be the most cost effective alternative.	No further funding for new start projects beyond those now under construction or ones which can be fully funded with FY 84-85 budget authority.
Interstate Transfer-Transit	
AASHTO supports expeditious processing of all Interstate Transfer projects, and adequate funding.	Effective in FY 1986, both transit and highway Interstate substitute projects are to be funded from the Highway Trust Fund.

AMERICAN ASSOCIATION OF STATE HIGHWAY
AND TRANSPORTATION OFFICIALS

RICHARD P. BRAUN, President
Commissioner
Minnesota Department
of Transportation

FRANCIS B. FRANCOIS
Executive Director

May 10, 1985

The Honorable Glenn Anderson, Chairman
Surface Transportation Subcommittee
House Committee on Public Works and
Transportation
2329 Rayburn House Office Building
Washington, D. C. 20515

Dear Chairman Anderson:

You will recall that when AASHTO President Richard Braun, David Lee and I appeared as requested before the Subcommittee on March 7, 1985, to offer testimony on the proposed surface transportation budget for Fiscal Year 1986, we were asked to develop and provide some additional materials to the Subcommittee. Specifically, you asked President Braun if we would provide information on how most States go about selecting highway projects to be funded, and to what extent there is political influence in the selection of highway projects at the State level.

In addition, Reps. Clinger and Edgar asked me to provide comments on the "Supplement to Special Analysis D", sent to Congress in February by the Executive Office of the President, Office of Management and Budget.

Preparation of reports on both of these subjects is now complete, and we are pleased to forward herewith the following:

1. A report titled "A Review of State Highway Projects Selection Procedures", prepared by our Standing Committee on Planning.

2. A package of supplemental materials relating to the above report, which are identified in Appendix F of the report.

3. A report titled "Commentary on 'Supplement to Special Analysis D'", authored by the undersigned and based in part on information supplied by a number of AASHTO member departments.

During the hearing on March 7 and in related discussions with your staff, we have mentioned two new AASHTO Reports that have been in preparation for the past year, one concerning public transportation and the other the Federal-aid Highway Program. We have been asked to provide copies of the two reports to you when work on them was complete, and this has now occurred. Accordingly, we are also pleased to include the following two documents:

4. "A Study on Future Direction of Public Transportation in the United States"; Chapter 7 of this AASHTO Report contains a number of recommendations related to the report's findings, but we must underline to you that those recommendations are not official AASHTO policy, as is made clear on the report's title page.

5. "A New Focus for America's Highways: Recommendation on the Federal-Aid Highway Program".

The AASHTO Report "A New Focus For America's Highways" also contains recommendations, 45 in number. In this instance, those recommendations have undergone balloting by the 50 states, the District of Columbia and Puerto Rico, and based on returns from all 52 member departments each of the 45 recommendations has received at least the 35 affirmative votes required for the adoption of Association policy. Thus, the 45 recommendations of this AASHTO Report do constitute the official position of the Association.

We are also enclosing copies of briefing materials on the two AASHTO reports, which will provide you with a brief overview of their contents.

We trust these documents satisfactorily respond to your requests to the Association, and we will be pleased to consider any further requests you may have for information.

As requested by members of the Subcommittee during the hearing on March 7, we are providing copies of this response to all members of the Committee on Public Works and Transportation. However, because of their bulk, we are not providing the other members of the Committee with the supplemental materials identified in Item 2. As a service, we are also providing copies of the two AASHTO Reports (Items 4 and 5) to all members of Congress.

Very truly yours,

Francis B. Francois
Executive Director

FBF:mlm

cc: Members of the AASHTO
Policy Committee

AMERICAN ASSOCIATION OF STATE HIGHWAY
AND TRANSPORTATION OFFICIALS

RICHARD P. BRAUN, President
Commissioner
Minnesota Department
of Transportation

FRANCIS B. FRANCOIS
Executive Director

A REVIEW OF STATE HIGHWAY PROJECT SELECTION PROCEDURES

prepared by the

Standing Committee on Planning

of the

American Association of State Highway and Transportation Officials

under direction of

Fred Miller

Chairman, Standing Committee on Planning
and
Director, Oregon Department of Transportation

in response to a request made by the Chairman of the

Surface Transportation Subcommittee of the House Committee on

Public Works and Transportation

May, 1985

INTRODUCTION

This report was prepared by the Standing Committee on Planning, in response to a request made by Chairman Glenn Anderson of the Surface Transportation Subcommittee of the House Committee on Public Works, during a hearing on March 7, 1985. During the hearing AASHTO President Richard Braun was asked by Chairman Anderson how most states go about selecting highway projects to be funded, and to what extent there was political influence in the selection of highway projects at the state level. The text of Chairman Anderson's question is included in the Appendix to this report.

During the hearing, President Braun responded on behalf of his state of Minnesota, where he is Commissioner of the Department of Transportation. As to other states, President Braun stated that AASHTO would be pleased to prepare a report for the Subcommittee, and this document is that report.

The Chairman of the Standing Committee on Planning, Fred Miller of Oregon, was asked to undertake the preparation of the report through his Committee. Three primary sources of information were used. First, each AASHTO member department of highways and transportation was requested to provide a written description of its highway project selection and programming process to the Committee. Second, the results of a February, 1984 survey of state programming practices undertaken on behalf of AASHTO by the Michigan Department of Transportation were examined. Third, the results of an earlier study, "Evaluation Criteria and Priority Setting for State Highway Programs" by Thomas F. Humphrey (NCHRP #84, November, 1981) also was reviewed.

This report is in three parts. The first is a discussion of the project selection and programming process that attempts to synthesize key elements common to most states and to provide a "most typical" description of state practices. The second part is a discussion of how public preferences typically are incorporated into the project selection process. The third part includes several case studies of state procedures, selected for reasons of representativeness and clarity.

Also being submitted to the Chairman of the Subcommittee with the original of this report are certain supplemental materials, which are identified in the Appendix.

Part 1 - PROJECT SELECTION AND PROGRAMMING

The project selection and programming process is how a state DOT's transportation strategy is translated into an action plan of construction projects. This involves setting relative priorities for several categories of improvements, determining funding levels for the categories, and then fitting the highest ranking projects into the funding constraints. It is a complex, time-consuming process.

Decision-making occurs at four different levels of the process, all influential in project selection, which we shall call System Planning, Policy Planning, Project Initiation and Development and Programming/Project Prioritization. While these functions may have different names and degrees of emphasis among states they are integral parts of every state's project selection and programming process.

System Planning

Known in some states as "needs" analysis or sufficiency or deficiency ratings, highway system planning is an analysis undertaken: (a) to assess system deficiencies; (b) to examine the advantages and disadvantages of various levels of service and design criteria; and (c) to evaluate specific investment issues best addressed at a system level.

Generally, the planning is performed by first taking a system evaluation or inventory that gathers data on pavement performance, safety problems, congestion/capacity problems, bridge conditions, geometric and structural adequacy, and route continuity. Pavement management, a form of inventory control and research using performance analysis techniques to identify highway sections in need of repair, is a rapidly growing tool used in system planning. These data are then compared to "tolerable controls" or performance standards, which are variable by highway functional classification, terrain, traffic, and rural or urban location. This comparison generates a series of specific and/or systematic needs or deficiencies. Then, cost estimates of upgrading the roads to current standards are prepared.

Policy Planning

In addition to needs analysis, most states analyze a variety of issues that may affect their transportation systems, such as economic conditions and development trends, energy, environment, technology and regulation. Based on these analyses, policies or strategic plans for system development defining the goals and objectives, long-range plan assumptions and the means by which these goals and objectives can be accomplished are developed to guide the state's highway improvement activities.

In the 1980's, levels of service, rather than physical placement, is the focus of most state policy planning with primary emphasis given to preserving existing systems. Other common policies or assumptions include trying to match all federal funding, stabilizing work forces, supporting economic development projects, especially those of statewide significance, and increasing maintenance expenditures until surface preservation programs exceed rates of deterioration. This widespread emphasis has considerable influence on project selection throughout the states.

Project Initiation and Development

Project recommendations come from a variety of sources. In accordance with federal statute, recommended urban projects are contained in Transportation Improvement Programs (TIP's) prepared by metropolitan planning organizations (MPO's). Some states, such as California, have extended this concept to rural areas by the formation of regional planning agencies which adopt annual TIP's. More commonly, however, district offices of state transportation departments are responsible for developing a recommended construction program for rural regions. Utilizing various deficiency studies, transportation plans, pavement management programs, and safety analyses, the central offices of the state departments normally contribute a significant number of project suggestions for the district programs.

Project suggestions from citizens and organizations outside the state departments are actively solicited. Most states include an extensive series of public hearings in developing their improvement programs. In addition, suggestions from local government agencies, road user groups, and state legislators usually are sought as well. It is generally accepted among the states that public involvement is intrinsic to the project selection process as a means of assuring responsiveness to local priorities and public sentiments.

Programming/Project Prioritization

Programming is the activity which develops a schedule of projects related to expected levels of funding over some intermediate period (e.g., 2-6 years). The resulting program must reflect the results of System and Policy Planning, budget constraints, and the lead time required to prepare a project for construction. In short, the programming process is where a department's transportation strategy is translated into an action plan of construction projects.

Typically this is done in three stages. The first involves the allocation of funds to three general program categories: (a) capital programs; (b) maintenance programs; and (c) operations and administration. Departmental policy planning plays a direct role here. The second stage is the allocation of funds within each of these three program categories. Because many states attempt to maximize the use of federal funds, the size of federal categorical grants have a major effect on programming. Many states commented on how greater flexibility in these categories would enable them to use federal funds more effectively in meeting their individual needs.

The third stage is the allocation of funds to specific projects, that is, which projects in each program category will be constructed. Typically this is done by ranking projects submitted by the district offices on a statewide basis by category. The 1984 Michigan Study indicated that 94% of the states prioritize projects.

Project ranking or prioritization occurs through a process that considers both quantifiable or technical factors and nonquantifiable factors. The relative weight given each type of factor varies by program category. For instance, most states rank bridge projects on a technical sufficiency rating basis. On the other hand, state-funded restoration, rehabilitation and resurfacing work may be ranked statewide on a strictly technical basis through a pavement management system or simply allocated on a geographic basis for prioritization by the DOT district office. Federal-aid urban funds are sometimes allocated by a formula based on factors such as lane miles, vehicle miles, or population.

Commonly used technical ranking factors include sufficiency ratings, benefit/cost calculations, pavement evaluation scores, traffic volume/capacity relationships, travel time savings, and accident reductions. In most states a number of other factors that do not always lend themselves to a numerical application play a prominent role in establishing priorities. Generally states will fulfill prior commitments when preparing their annual construction program. Similarly, consideration is given to economic development and community impacts, manpower requirements, system continuity-connectivity, environmental issues, project readiness, and funding availability.

Of a political nature, a handful of states must respond to legislative mandates (line-item budgeting) while the rest give varying degrees of attention to the amount of local support, or more typically lack of support, for projects or to obtaining a acceptable geographic distribution of funds.

Once an annual or multi-year program has been adopted, instances may arise that necessitate modifications. Generally these fall into one or more of the following categories:

A. Emergencies - Floods and storm damage may disrupt transportation. If Federal Emergency Relief funds are not available, needed repairs will delay work on other projects.

B. Changes in Federal and State Funding - Increases in funding will allow projects to be added while rapidly escalating construction costs will have the opposite effect.

C. Development of Projects - Project development time dictates when a project can be scheduled for contract. Delays occur, due to unforeseen developments during public participation, environmental, right-of-way or design phases, particularly on larger projects. This causes some projects to be pushed back while others are advanced.

D. Special Funding Categories - The weather, structural conditions and traffic affect the deterioration of bridges and pavements, and the need for safety improvements. Since the dynamics of weather and traffic can vary significantly from year to year, pavement bridge and safety programs are only scheduled for a few years and projects may be added to the program as need arises.

Part 2 - EXTENT OF POLITICAL INVOLVEMENT IN HIGHWAY PROJECT SELECTION

Representative of democratic government, state highway plans are reflections of what is considered to be the type of highway system citizens want to support and pay for. Viable capital improvement programs, then, tend to be founded on technical criteria which reflect resource limitations and engineering assessments of system needs, but are responsive to, and in accord with, the predominant views of citizens and their elected representatives.

The most common political expression of the public's conception of highway needs occurs at the policy level. Most state transportation commissions or departments have legislative mandates to prepare statewide transportation plans. These mandates occasionally will require specifically needs studies, technical ranking procedures, or that priority be given to system preservation.

Another level of political involvement occurs in the budgetary process as the availability of state funds is critical to the advancement of projects. Normally this too occurs at a policy level as gubernatorial direction and legislative policy act on departmental budgets and bonding authority in that overall program priorities (e.g., maintenance, construction, completion of interstate system) reflect some general consensus between the DOT and the legislature. In a few states (e.g., Alaska, Vermont) the legislature approves a project specific line-item budget, but most approve a broad-based program recommended by the DOT.

The prevalence of dedicated highway funds and independent transportation commissions is also an expression of political opinion about project selection. Both of these actions reflect the legislature's desire for isolating highway investments from day-to-day political pressures and for emphasizing objective programming decisions. At the same time, however, commissions composed of private citizens are seen as mechanisms for ensuring sensitivity to local priorities and public sentiments.

The predominant political response among the states is to find means of ensuring that policies are driven by needs and that expenditures based on such needs are determined by professionals. However, a few states have limited departmental authority, usually in an attempt to guarantee an acceptable geographic distribution of funds. For example, California law requires highway construction funds be split on a percentage basis between the north and south parts of the state, while Oklahoma's transportation commissioners are appointed to represent specific geographic areas. Although a geographic allocation of funds by rigid formula generally is seen as inefficient and even counterproductive, especially in times of limited resources, most funding allocations will reflect a need for some social and service equity to all parts of a state.

Another aspect of political involvement occurs during the public involvement phase of the project selection and programming process. Most states will drop or delay projects if they do not enjoy local support unless they are safety oriented or involve bridge rehabilitation where technical concerns are of utmost importance. While most states believe that decisions made on a subjective basis or solely as a result of political pressure generally do not hold up against the hard facts that can be presented in support of other projects, they nevertheless encourage public participation. Discussions with legislators, local officials, and the general public is useful in clarifying programming problems as well as determining what is perceived as the most immediate of already identified needs.

To summarize, in most states a public process tends to drive the overall policy and program budget making process while technical, engineering considerations tend to drive project selection and programming.

Part 3 - APPENDICES

APPENDIX A -	Copy of text of Chairman Glenn Anderson's question to President Richard Braun on March 7, 1985
APPENDIX B -	Materials from the Kansas Department of Transportation, describing that state's project selection procedure.
APPENDIX C -	A paper describing Michigan's process for selecting highway projects.
APPENDIX D -	An excerpt from a New Mexico State Highway Department document, "The Five Year Construction and Maintenance Plan 1985/86 - 1989/90 of the New Mexico State Highway Department", describing the State's project selection procedure.
APPENDIX E -	A description of procedures used by the South Dakota Department of Transportation to develop that state's highway construction program.
APPENDIX F -	A list of the supplemental documents provided to Chairman Anderson with the original of this report.

APPENDIX A

As you know, Mr. Braun, Congress recently received some criticism from the Administration and others for its authorization of highway demonstration projects in general highway legislation contending that there is too much political influence involved in the authorization of these projects. As you also know, our most recent highway legislation contained authorizations for these projects that amounted to about 2% of the total Federal-aid highway budget, whereas over 90% of Federal-aid funds go to States on a formula basis and the States themselves select the projects to be funded.

My question to you is -- how do most States go about selecting the projects to be funded, and to what extent is there political influence in the selection of highway projects at the State level?

You may want to respond now for the State of Minnesota, but we would also appreciate a more studied and comprehensive response for the record.

KANSAS DEPARTMENT OF TRANSPORTATION

STATE OFFICE BUILDING—TOPEKA, KANSAS 66612

JOHN B. KEMP, Secretary of Transportation
JOHN CARLIN, Governor

April 12, 1985

APPENDIX B

Mr. Dave Williams
516 Transportation Building
Salem, Oregon 97310

REFERENCE: AASHTO SURVEY: STATE SELECTION IN PROGRAMMING OF FEDERAL-AID HIGHWAY PROJECTS

Dear Dave:

I have attached a paper entitled, The Case Study of Our Program and Procedures, as we discussed at the SCOP Meeting. I hope this is useful to you in your presentation for AASHTO. I have also attached a number of documents that are specifically related to the AASHTO Survey. I will reference them as I respond to your key points on the survey below. Paragraph numbers referenced directly to the key points shown on the document entitled, AASHTO Survey: State Selection in Programming of Federal-Aid Highway Projects.

1. Kansas legislature has a history of non-interference with the selection of highway improvement projects.

   Legislative involvement is at the level of funding and specific guidance that the Department should develop policies and procedures for project selection. Indeed, on three separate occasions, the Legislature has mandated that the Department develop formalized project selection criteria - once for a freeway program, once for an emergency 3R program, and finally in 1979 for the total project selection process. The Secretary is frequently asked to explain the various categories we use and how we make decisions concerning the allocation of funds to those categories, but the Legislature had only one or two occasions specifically allocated funds to specific categories. In general, the entire Highway Fund is appropriated annually to the Secretary and expenditure limitations are placed upon salaries and wages and other operating expenditures with the balance allowed for capital improvements. Federal-aid influences project selection for Interstate and Interstate 4R. Projects are prioritized within those two fund categories and programmed up to the available limits of the funds and obligation authority. The remaining projects are prioritized against each other and programmed to fund limits. That is, federal-aid primary, federal-aid secondary, and bridge projects are all prioritized together.

Our prioritization system has trade off weightings for bridges and pavements that allow them to compete against each other within the same formula. Federal-aid primary and federal-aid secondary funds on state projects are considered to be from the same pot to the extent that the transferability between the fund categories will allow. Projects are then programmed by moving down through the fund categories as far as each category will go until we reach obligation ceiling or the end of a fund. For example, in our programming process last year, we went down the list selecting projects and subtracting from the fund categories and found that we ran out of primary and secondary funds before we ran out of obligation authority. We then had to skip further primary and secondary funded projects in our priority list and select bridge projects until we had reached the obligation authority limit.

2. In general, federal-aid and state funds are considered to be from the single pot to the extent possible. Conceptually, we view federal-aid as a return of a Kansas tax dollar to meet Kansas system needs as well as integrating those needs into a larger national system performance.

3. Kansas uses its limited financial resources through a hierachy that treats surface preservation and rehabilitation of the existing system as the first call on funds. The result is that there are very few dollars allocated for the construction of new facilities. Most funds are used to keep the existing system functioning and to improve some of that system to functioning at the level that it ought to function.

4. Kansas uses two highly mathematical and technical programming tools for its Highway Improvement Program. One is called a Priority Optimization System developed in conjunction with the consulting firm of Woodward-Clyde. Basically, it considers all salient characteristics of roadways and bridges and places the improvement in a priority sequence based upon a mathematical formula derived from a collective decision-making process that effects point in time. A second technical tool being developed and being used in a rudementary form is a Pavement Management System also being developed by the firm of Woodward-Clyde and similar to the Arizona Pavement Management System. The system will dictate actions on all segments of the system at a given budget level budget.

5. Kansas used the procedures described above to build a Five Year Program which is updated annually by dropping the prior year and adding the new year. The Secretary describes that system as having two years of firm projects and three years of tentative projects. In the firm two year program, we identify the projects and the year they are to be let to contract. The tentative program consists of three years worth of projects identified simply as occurring at some point in that three year period without specific identification by year. That program of projects is published and made available to the public and distributed through a set of public forums that the Secretary holds each summer after the program has been developed.

The program can be met to the extent that assumptions concerning state funding, federal funding, the projects scoping and cost are well estimated. In the last year and a half, the failure of the Congress to pass an Interstate Cost Estimate and its frequent juggling of obligation ceilings have caused massive shifts in the Five Year Program. The advantage of a multi-year program in allocating manpower and maintenance resources are severely curtailed when these actions occur. Basically, highway system management then becomes done on an ad hoc basis with all the resulting inefficiencies.

This does not mean that changes do not occur. Clearly they do as a result of emergencies and project development delays. Emergencies obviously are not predictable and the very best programming cannot avoid them. A good program is built to maximize all projected cash so that an emergency project will by necessity force out some other project. Project development delays are somewhat more manageable, but do indeed also present a problem. Basically, however, we hope that by a time a project enters the firm program that the probability of its being built in the year projected ranges between 99 and 100 percent. The grouping of projects in the tentative program without a year assignment allows for project development delays to be ironed out prior to entry into the firm program.

6. Legislators, executive branch personnel, local governments and the general public often provide assistance through suggestions about what else needs to be done that is not in the Highway Program. It's useful to distinguish between two types of suggestions. In the first case, there are suggestions for project types that may evolve from discussions about specific projects but clearly border on types of projects that are needed for the system. An example might be that the current program provides very little funding for new interchanges and yet there is a great deal of demand. In this case, the Department is working with communities to develop a document demonstrating the need for these type of facilities and relating them to the current level of funding with a clear conclusion that there must either be new funding or preservation of the existing system must be traded off for that new facility. The second category is suggestions for specific projects. We have found that most communities are sympathetic to the funding problem and essentially do agree that all across the state must be treated equitably and fairly.

We found a number of suggestions to be of considerable merit and have caused us to reconsider some of the weightings in our priority formula. The point is however that in changing the weighting, it changes it for all control sections that make up projects so that the entire state is effected uniformally and equally. I might add that those changes have to date consisted of modifications to the weighting the functional class to insure that the low volume collectors were not taking precedence over high volume arterials.

I would note that we attempt to be extremely responsive to the public, communities, the Governor's staff and the Legislature within the confines of a priority network and the commitment to treat all citizens uniformally and equitably. On projects there is often a great deal of latitude concerning the actual scope to which the project will be built. Judgment is often called for - many judgments are valid. These judgments and suggestions are examined and the decision is made by the top management level of the agency. I emphasis however, that this occurs on projects once the projects have been selected and programmed through the prioritization process.

7. The discussion to this point has been true mainly concerning the rural system which is the bulk of the system in Kansas. State involvement in urban projects generally consist of the normal 3C process and encompasses the states use of federal-aid interstate funds and the urban areas use of federal-aid urban funds.

I hope you found the information useful. If we can provide any further information, please do not hesitate to call.

Very truly yours,

John B Kemp

JOHN B. KEMP, P.E.
SECRETARY OF TRANSPORTATION

States Selection In Programming of Highway Projects in Kansas

A Case Study

The Kansas Legislature has traditionally shown a fairly high level of concern over the methods used by the Kansas Department of Transportation to program projects while steering clear of picking the actual highway projects.

The Legislature has been willing to allow the Department to pick the highway projects based upon best engineering and management practices. So long as they felt need to be assured that willingness is shared by other political actors.

An early indication of the Legislature's concern was demonstrated in the original enacting legislation for the State System of Express Highways and Freeways which specified that the allocation of expenditures and funds for the system was to be according to need as determined by a schedule of priority index numbers. The legislation originally contained a list of items which were to be considered as criteria to be used for completing the priority index numbers and the formula to be used. Subsequent amendments to that legislation removed the paragraph that contained the criteria and the formula. The Department did develop a procedure.

Elected officials at times felt that under the Highway Commission system projects were selected politically. While there may have been instances of projects selected for reasons other than those consistent with best system management practices, this does not appear to be the case overall. Projects are generally programmed through a procedure of successive analyses of system data; potential projects were developed with concurrence by upper management and the Highway Commission, resulting in a consensus program based on judgmental criteria at multiple levels in the agency structure. The reality, however, was that projects were perceived to have been programmed politically. The matter may have been further exasperated when the Highway Commission was abolished as a policy-making body in 1976 and replaced by a cabinet level Secretary of Transportation.

In 1979, the Legislature rejected the traditional method of programming and took two specific actions. The first, taken in conjunction with providing $35 million dollars for an emergency 3R program was to mandate that a priority formula be developed and utilized to determine the priority of those 3R projects. The second was a placement of a proviso in the Department of Transportation appropriation bill demanding the development of a priority system for all projects. While that proviso was stricken from the bill before passage, a letter expressing the concern of the Legislature was sent to the Department of Transportation as a compromise action with the implication that the proviso would be returned to the bill the following year if progress was not being made. The Legislature mandated four requirements for that priority system:

1. This system should be clearly defined and use documented criteria;

2. A systematic and consistent procedure should be used to determine the relative weights of various criteria and the relative priority ranking for construction of road and bridge segments;

3. The results of the system should be reproducible such that an individual not part of the original decision-making effort would be able to recreate the list of priorities of construction projects; and

4. Quantitative and verifiable factors should be used in determining the relative priorities. If for some factors, hard data are not available and professional judgments must be used, the rationale for those judgments must be documented.

Clearly, the Legislature desired selection of projects to be as professional and non-political as possible and that that selection be done by the Kansas Department of Transportation as opposed to political actors. The cost was the development of a fairly rigid construction priority system a price that the Kansas Department of Transportation and the public appears willing to pay to maintain political non-interference in the programming process.

The Kansas Department of Transportation has developed such a priority system and uses it for its non-freeway highway improvement projects. The Governor and the Legislature appear fairly pleased with the system and have exercised an extremely high level of restraint and professionalism in resisting efforts to select highway projects. Discussion between the Department of Transportation and the Governor and the Legislature concerning the construction program is held at the level of major action types--preservation, reconstruction, rehabilitation, new construction, and bridge improvements. Political actors respond to needs in their areas through funding actions.

This priority procedure represents a major breakthrough because it formalizes implicit criteria used by members of the Department into an explicit, well-documented and defined system that can be viewed by all interested parties. Discussions no longer center on whether a project should or should not get into the Highway Improvement Program but whether different criteria should be used in the priority formulae. The level of discussion is at the level of the appropriateness of the categories of improvement, the relative funding dedicated to each of those categories, and factors used in the priority system.

KANSAS HIGHWAY CONSTRUCTION PROGRAM DEVELOPMENT
FY 1985-1989

The five year FY 1985-1989 Construction Program was developed using three categories: firm (FY 1985, 1986), probable (FY 1987), and tentative (FY 1988, 1989). These categories are retained for future programs.

- Firm projects are those ready or near ready to be let and are those upon which the capital improvements portion of the budget are built. KDOT expects little deviation in time or scope on these projects, and will explain changes.

- Probable projects are those very likely to be let during the period and at the scope programmed. Most of these will move to the firm category during the next budget cycle, as shown in the attached diagram.

- Tentative projects are programmed to insure that the construction and design effort has the required lead time to allow project development in priority sequence. These projects will be let as programmed if funding and other factors remain as estimated FY 1986-1990 Program.

During the spring of 1985, an additional year (FY 1987) will be published for the FY 1987 budget and a new fifth year (FY 1990) will be added using the Priority/Optimization System. The optimization procedures will optimize FY 1990. The new program will include FY 1986 and FY 1987 as firm, FY 1988 as probable, and FY 1989-1990 as tentative. Only FY 1986 and FY 1987 will be specifically identified by year.

The first firm year projects (FY 1986) will remain as those identified as the second firm year in the previous program. The second firm year projects (FY 1987) will be essentially those identified in the previous year as probable, with adjustments for new funding estimates and engineering factors. The FY 1987-1989 projects would not be optimized unless major changes to funding estimates occur such that it would be likely that major project scoping changes would occur.

An example of a major change that could occur is the removal of obligation ceilings in years that KDOT has large balances on hand and had programmed on the basis of ceilings at less than annual apportionments. A second example is passage of the next STAA with funding levels well above the FY 1986 levels.

Minor changes will be accommodated by moving projects forward or pushing them back, in priority order, depending upon the changes. Some projects identified as probable FY 1987 in the FY 1985-89 program may not be moved to the firm FY 1987 portion of the FY 1986-90 program due to reductions in funding estimates.

Resurfacing projects (1-R)

The project locations were selected by the District Engineers on the basis of miles allocated. The scope of action is selected and the locations reviewed by the Materials Engineer, the Chief of Construction and Maintenance, and the respective District Engineers.

We initially identify only 70 percent of the surfacing projects for the second firm year. As it becomes the first firm year, we add the other 30 percent. This 30 percent reserve allows us to take the impact of additional deterioration and weather into account that may have occurred over the winter.

The allocation of miles is based upon results of the annual pavement survey which categorizes roads as being in good condition (Level 1), deteriorating condition (Level 2), or relatively deteriorated condition (Level 3). We weighted Level 2 miles by a factor of 2 and Level 3 by a factor of 3. We then simply divided the weighted miles in each district by the total weighted miles to determine the percentage of the 1000 mile program to be allocated to each district.

The project attempts to bring some Level 3 to Level 1, hold some Level 1 at Level 1, and either keep Level 2 from becoming Level 3 or moving them to Level 1.

We anticipate in 1985 the PMS System will be developed to the extent that it will select the specific actions to be taken on the FY 1986 Projects.

In 1986, the PMS System will begin selecting both the project locations and the actions for FY 1987 projects.

Interstate Completion Projects

These projects are part of the approved Interstate network. KDOT programs then based upon construction sequencing factors and available funds. All Interstate completion apportionment is programmed each year.

KDOT and Local Shared Projects

Economic Development projects and Geometric Improvements on City Connecting Links are requested by local units of government and interested persons. These projects are reviewed and prioritized by the Highway Advisory Commission and presented to the Secretary of Transportation for his consideration, within the limits of available funds, established for these projects.

Other Roadway & Bridge Projects

All other roadway and bridge rehabilitation and improvements projects for the last tentative year (FY 1990) are prioritized and optimized through the priority/optimization system.

The priority/optimization system is basically a selection system designed to produce consistent decisions. It will meet the four requirements mandated by the 1979 Legislature, that:

1. The system be clearly defined and use documented criteria;

2. A systematic and consistent procedure be used to determine the relative weights of various criteria and the relative priority ranking for construction of road and bridge segments;

3. The results of the system be reproducible such that an individual not part of the original decision making effort would be able to recreate the list of priorities of construction projects; and

4. Quantitative and verifiable factors be used in determining relative priorities. If, for some factors, hard data are not available and professional judgments must be used, the rationale for these judgments must be documented.

Our new priority system is based upon what is called a Delphi process in which a number of professional engineers in the department, comprising a cross section of those individuals in the agency having significant highway responsibilities and experience, arrived at a group consensus concerning the order in which deficiencies on the system should be addressed. These factors are listed below along with the established relative weights.

ATTRIBUTES	RELATIVE WEIGHT
Bridges:	
Horizontal Clearance (ft)	.196
Deck Condition	.232
Structural Condition	.314
Operating Rating (tons)	.170
Bridge Roadway Restriction (ft)	.088
	1.000
Road Sections:	
Number of Narrow Structures	.086
Shoulder Width (ft)	.089
Number of Substandard Stopping Sight Distances per Mile	.069
Surface Lane Width (ft)	.101
Volume/Capacity	.091
Commercial Traffic	.065
Rideability	.088
Pavement Structural Evaluation	.208
Observed Condition	.104
Number of Substandard Horizontal Curves/Mile	.099
	1.000

The KDOT used a criteria it developed to combine the various control sections into projects and to formulate sets of possible actions or scopes for each of those projects. These scopes were assigned on the basis of nationally accepted design guides. Procedural guides have been written for all facets of this process.

The system then produces a pricrity list of projects and identifies the scope with the higher cost benefit for each project.

The draft program was then compiled by matching projects to available funds in priority sequence.

Not all projects will immediately fit into the priority optimization and pavement management systems. Projects are currently developed on the basis of data on existing control sections and bridges contained in the Kansas Data Base. While this is a truly remarkable data base in that it contains excellent data on every portion of the system and can be used to define exactly what needs to be corrected on that system, it does not address only what is actually out there. It does not tell us, for example, where there should be a road or where there is not one currently. The system also does not identify the need for new interchanges, bridge painting, lighting projects, and a number of others. These projects result from a consensus type effort. They comprise a very small portion of the total program.

After the draft program is developed by the Division of Planning and Development, it is reviewed by the Director of Operations, Director of Engineering and design, and the Director of Administration with regard to plan development time, manpower commitments, cash-flow projects and project schedules. The recommendations are furnished to the Division of Planning and Development which then makes the necessary adjustments and/or furnishes the comments along with the Draft program to the Program Review Committee.

The review committee composed of the Secretary, State Transportation Engineer, the Assistant to the Secretary, the Chief Counsel, and the Division Directors. The Director of Planning and Development and Chief of Project Selection highlight those projects that may require deviation from the procedure for the purpose of enhanced program efficiency. An example might be a project with extremely high cost but on low volume roads or a bridge that is not identified as high enough in priority to warrant inclusion on their own but are an integral part of a high priority road project.

The consensus of the review committee on all deviations is documented showing each project and reason for the decision. Most deviations are for scope changes. Additions or subtractions from the priority list, except for funding reasons, are rare.

APPENDIX C

MICHIGAN'S PROCESS FOR SELECTING HIGHWAY PROJECTS

I. Introduction

The movement of people and goods is vital to Michigan's economy. Throughout the state, an intricate network of highways serves Michigan's mobility needs. This transportation system is essential to the social interactions of our citizens and crucial to the health of our economy. Consequently, periodic reexamination of the system is critical to the formulation of transportation policies, plans, and programs. Effective policies can be formulated only when adequate information is available.

A rapidly changing, highly volatile economy has forced decision makers to revise their methods of planning and policy formulation. The emphasis on long-range planning of the 1960s is being replaced by procedures that are geared to reflect immediate, response-oriented thinking by identifying options and prioritizing the potentials for investment of severely limited resources. Traditional planning procedures are not sufficiently sensitive to this need. Consequently, decisions are increasingly being made on an ad hoc basis, often without the proper analysis necessary to evaluate alternatives and the long-term effects of the decisions. Transportation officials must recognize that a more definitive prioritizing of the system as a basis for programming projects is absolutely essential to sound decision making in this quick response environment.

Sound planning includes systematic steps toward the development of a strategic planning process, a systems management plan, a transportation program to accomplish the plan, a financial plan, and ultimately the selection of individual construction projects. In Michigan, these steps are accomplished through five distinctive yet interrelated reports. The process is cyclical and repeated every four years.

The purpose of this paper is to describe this process. The paper contains seven sections. The first section describes the former process used by the Department of Transportation and the findings of the Programming Task Force created by Director James Pitz. The second section describes the intent of the legislatively-mandated Needs Study. This is followed by a discussion of the fiscal analysis in the third section. The fourth section describes the State Transportation Plan. In the fifth section, the long-range highway program process is detailed. The sixth section provides an explanation of the annual program and the call for projects. The final section describes the current funding structure for transportation in Michigan.

II. Programming Task Force

In May of 1983, Director James Pitz formed the Programming Task Force. The Task Force was directed to "develop an integrated multi-modal programming system for the Department which relates transportation needs analysis and our planning processes directly to the development of a program structure." The Task Force issued their report on July 1, 1983.

Prior to this time, the programming process used a variety of traditional sources in selecting potential projects for the highway program. These sources included the State Trunkline Plan, the 1980 Needs Study, Regional System Studies, 3-C Plans, the Highway Sufficiency Rating Report, FHWA Bridge Inspection Reports, Safety Priority Lists, and recommendations from highway district engineers, local government officials, state legislators, or the general public.

The basic highway programming documents were: (1) the Annual Report to the Legislature, which covered the following fiscal year and was revised as required; (2) the Annual Program to the FHWA, which also covered the following fiscal year and which was revised monthly or as required; (3) the Letting Schedule, which covered a five-year period and which was revised monthly or as required; and (4) the Production Schedule, which covered a ten-year period and which was also revised monthly or as required. The Letting and Production Schedules were for internal use only.

There were several agents which had a major influence on highway programming decisions. The most important of these were the Transportation Commission, legislators, department management, and local government officials.

Projects were considered for programming as the need arose. Geographic balance and the relationship to other modal programs often played a role in developing the highway program. The decision on selecting projects for programming was made by the Deputy Director for the Bureau of Highways. That decision was approved or amended by the Director and the Transportation Commission.

However, there was no regular review and update of the project list. Once a project was programmed it remained on the list and rarely was a project cancelled. Consequently, the project list began to grow to an unmanageable and financially unrealistic size.

In order to alleviate this situation, the Programming Task Force recommended that programming of highway projects be conducted based on the following principles:

1. A multi-year program is developed using clear-cut procedures and time tables, culminating in review and approval by the Transportation Commission and legislature.

2. All transportation improvements are prioritized based on commission policy and executive direction consistent with the State Transportation Plan and other officially recognized policy documents.

3. Funds are allocated to program categories based on the type of transportation improvement, consistent with State Transportation Plan priorities.

4. Basic, consistent information about the condition of the transportation system is used, making the comparison of projects more meaningful.

5. Pavement management is integrated with a system preservation approach to highway improvement.

6. The districts, local units of government, and transportation providers contribute to the development of the multi-modal program.

7. When a project moves to the design phase, there is agreement as to the scope (magnitude) of the project and changes to this agreement are kept to an absolute minimum.

8. The multi-year program is coordinated with the preconstruction design and clearance process so projects stay on schedule.

9. Program amendments and changes to the scope and nature of projects are reviewed and processed in a stepwise, understandable manner. The changes are approved by a centralized programming organization.

10. The use of federal funds is maximized on a system-wide basis.

11. The program consists of a computerized list of projects by modal program categories, containing a standardized description of the project, location, cost, and schedule for implementation.

12. The program contains a minimum amount of overprogramming. A percent is determined and overprogramming does not go beyond that percent.

13. The program structure includes a method for balancing the distribution of funds. The method used to distribute funds is explainable.

14. Long term programming and short term scheduling are separate functions. The short term (one year) implementation schedule is a logical outgrowth of the multi-year program.

The Director accepted the recommendations of the task force and established a Central Programming Office in the Bureau of Transportation Planning. The Central Programming Office will have the responsibility for developing and monitoring the Department's annual and long-range program. Funds will be allocated to program categories based on overall department investment priorities, consistent with management goals and the outlines established in the Needs Study and State Transportation Plan.

III. Needs Study

A Needs Study is an inventory of the existing system and the costs necessary to bring the system up to a certain standard. In Michigan, the Needs Study is mandated by law. The Needs Study committee membership is also set by law. The individuals are appointed by the Governor and represent major transportation users and providers. MDOT provides technical support to the committee. The Needs Study includes:

1. an inventory of the existing conditions of the highway system,
2. the projection of future demand on the system,
3. the identification of current deficiencies and those which are expected in the future to meet anticipated demand,
4. the identification of specific actions which would eliminate the deficiencies,
5. the cost of each type of action, and
6. the identification of general transportation priorities.

Functional goals were developed to encourage preservation of existing facilities and services, support continued economic growth, optimize public investment, and promote an integrated and safe transportation system. Measures of effectiveness were developed in order to evaluate alternative service levels. These measures of effectiveness will be re-evaluated in the 1985 State Transportation Plan.

In support of the goals, the Needs Study Committee established the following priorities of transportation for Michigan. These priorities are optimized around the concept of mobility.

- Preserve existing services and infrastructure
- Secure sufficient revenues to match federal funds
- Support economic revitalization and growth
- Ensure a safe system
- Provide access to services for those citizens who are mobility disadvantaged.

IV. Fiscal Analysis

An assurance of adequate funding cannot be achieved without effective financial planning. To make future plans more realistic, MDOT is working to do a better job of financial planning over longer periods. Projecting revenues over the appropriate planning horizon and developing long-range programs based on the revenue projections are part of the traditional planning process. Lacking adequate funding, the emphasis will be to plan alternative packages of programs and projects based on alternative levels of funding. Application of quantitative methods of financial and economic analysis can help achieve the recommended planning approach.

In Michigan, this portion of the process is influenced by the Fiscal Task Force. This is a legislative-appointed body which includes transportation interest groups, three members of the House of Representatives, three members of the State Senate, the County Road Association, the Municipal League, the Michigan Township Association, and Director Pitz. This committee is jointly chaired by one member of the House and one member of the Senate. This is clearly a legislative-authorized body. As of the writing of this paper, the Task Force had not met nor had an agenda been established. The Task Force will function outside of the normal planning process and will obviously be influenced by the political climate.

V. State Transportation Plan

The concept of strategic planning involves a process of setting goals and objectives, assessing the political, social, and economic environment; analyzing available resources; and managing the organization to achieve the goals and objectives. Strategic planning attempts to blend all of these factors into a framework for accomplishing the department's mission. It is an ongoing process which is aided by the development of the State Transportation Plan. The State Transportation Plan is developed every four years by MDOT in cooperation with transportation providers and users. When adopted by the Transportation Commission the plan becomes the principal policy document for MDOT. The plan provides the basis from which departmental programs can be measured relative to their effectiveness in achieving the desired objectives. The measures of effectiveness provide management with an indication of the productivity of the programs operated/sponsored by MDOT.

The State Transportation Plan presents the goals and policies of the State Transportation Commission for a specific planning period. The primary goal of the present State Transportation Plan (1982-1990), is the retention of "essential" services for all modes of transportation. The major emphasis of MDOT's programs must be the preservation of the existing system. Achieving this goal will protect the public and private transportation investment, and will ensure service to industry, commerce, and the general public, who depend on these systems to meet their transportation needs. Another vital goal is to support existing and potential economic development in order to assist in the revitalization of Michigan's economy.

VI . Long-Range Program

The major purpose of the programming process is to allocate resources in a manner consistent with the strategic and systems plans. A comprehensive programming process has both a program structure and a project schedule. The program structure sets forth the general strategy of the organization, and describes the means by which goals and objectives can be accomplished. In Michigan, we are currently developing a long-range (10 year) program. Using the information from the Needs Study and the policy directives from the State Transportation Plan, the long-range program identifies system deficiencies, establishes multi-year program priorities, determines the resource allocations to be made by program category and the major projects to be undertaken during the planning period. The program is being prepared by MDOT. A series of meetings are held around the state to receive public input regarding projects and priorities. The meetings will include receiving input from the private sector as well as such traditional planning agents as regional planning commissions and 3-C planning personnel. The information from these meetings will be assembled and used in drafting the program. This program will then be submitted to the Transportation Commission for approval.

The approach includes an overall program strategy of preserve, improve and expand. This strategy provides the basic program structure. Goals, objectives and priorities were developed for each category to guide in budgeting specific allocations.

The Department's strategy is expressed in terms of how much of our total resources should be allocated to preserving. improving and expanding the transportation systems. The program structure is categorized by specific priorites. These priorities further describe the types of work to be undertaken.

The program strategies for highway projects are as follows:.

Preserve: Correct existing surface and base deficiencies along the state trunkline system and maintain the system in such a manner so that no portion of the system is rated "poor" or "very poor."

Improve: Increase the capacity of the state trunkline system where necessary on the priority commercial network and in areas with high accident rates.

Expand: Support economic revitalization and growth through the development of new facilities.

The program structure for highway projects include:

Preserve:	Traffic operations Safety Bridge rehabilitation, road surface, and base repair Minor widening Roadside/Environmental
Improve:	Widen and repair priority commercial network Widen and repair high accident locations Widen and repair regional priorities Widen and repair high traffic volume locations
Expand:	Complete the interstate system Construct essential freeway links on the priority commercial network Construct essential economic development projects

The program structure for "preserve" is further categorized as to the type of work to be done.

Traffic Operations - Includes signing, pavement marking and traffic signals.

Safety - Refers to projects whose primary purpose is to enhance safety. This includes intersection revisions, lighting, median barriers, guard rails, railroad crossing improvements and safety devices, sight distance corrections, slope flattening, obstacle removal, and spot improvements.

Bridge Rehabilitation - This is all work required to restore the structural integrity of a bridge, as well as work necessary to correct safety defects. Typical improvements include deck replacements, overlays, railing replacement, painting, underwater repairs, and widening less than a lane's width. This does not include complete replacement.

Resurface - This category refers to placement of additional surface material over the existing roadway to improve serviceability or to provide additional strength. There may be some other work done in conjunction with the resurfacing, such as bituminous shoulders, joint repairs, pavement patching, minor drainage corrections, crack sealing, and minor superelevation corrections. If any of these incidental types of work were done alone, they would fall under the restoration and rehabilitation category. In general, a resurfacing is less extensive and less costly than a full restoration.

Restoration and Rehabilitation - Work types in this category include work required to return an existing pavement to a condition of adequate structural support and rideability. Safety upgrading or other incidental work in conjunction with restoration and rehabilitation may also be included.

Typical improvements may include any or all of the follow work types:

- recycling existing pavement (bituminous or concrete)
- three foot bituminous shoulders
- minor drainage corrections
- minor base corrections
- superelevation corrections
- cracking and sealing old pavement
- overlay, in conjunction with any of the above
- pavement patching
- longitudinal and transverse joint repairs
- shoulder improvements - paved full shoulder based on 3R standard
- safety upgrading, if included with one or more of the above

Three foot bituminous shoulder work programmed alone includes no major work to the traveled roadway. This is applicable only if the lane width is currently at 3R standards. If the road isn't at the current standard, minor widening may be requested. If a bike path is needed, include an additional 2 feet.

A major restoration and rehabilitation job is less costly and less extensive than a reconstruction because only minor base and slope work may be included.

Reconstruction - This category refers to removal and replacement of the old pavement structure on the approximate alignment of the existing route, usually within existing right-of-way. It is replacement in-kind with no additional through-lanes. It may include major grade changes or horizontal alignment changes. The work includes drainage corrections and major base corrections. In general, a reconstruction is comprehensive and is more extensive than resurfacing, restoration or rehabilitation.

Minor Widening - Refers to widening an existing road less than a lane's width. This may also include left turn lanes of less than half a mile and right-turn flares at intersections. If the improvement turning lane is being done for safety reasons, the project will be classified as a safety project. This category includes all 3R work done in conjunction with the minor widening.

Roadside/Environment - This category includes improvements that do not provide any increase in the level of service; the condition of the facility, or safety. Typical improvements in this category are sound barriers, beautification, rest areas, travel information centers and fence repairs.

The program structure for "improve" is further categorized as to the following types of work.

Capacity Improvement - This is the addition of one lane or more to increase capacity on the existing location. Also included, where necessary, is any resurface, recycle, or reconstruction of the existing pavement. Passing relief lanes are included.

Bridge Replacement - The total replacement of a structurally inadequate or functionally obsolete bridge with a new structure constructed in the same general traffic corridor, to current geometric, construction, and structural standards. Incidental roadway approach work is included.

Bridge Widening - This category includes widening of one or more lane's width and may include any other work in the bridge upgrading category.

The program structure for "expand" is further categorized as to the following types of work.

New Route - This category is construction of a new facility that will provide service where none previously existed.

Relocation - This is construction of a facility on a new location that replaces an existing route, usually with a facility that significantly upgrades service. The new facility carries all the through traffic with the previous facility closed or retained as a land-service road under local jurisdiction.

Preserving the investments we have made in the existing state trunkline system is MDOT's #1 priority. This priority is based upon policy statements from the Transportation Commission and specific legislation directing that 90% of funding be spent on preservation and 10% on improving and expanding the system. Relative to improving and expanding the system, our effort will be focused on those routes which will enhance Michigan's economic vitality.

One method to set project priorities for preserve, improve and expand is the development of a preliminary priority commercial network. The priority commercial network is a system designed to provide service to industrial, agricultural, forestry and tourist activities that are vital to Michigan's economy. A further tool that will enhance our ability to set priorities based upon need will be the development of a pavement management system. Additional tools include surface and base sufficiency ratings.

VII. Project Programming - Annual Report

Project programming must be consistent with the system plan. Project programming in Michigan is achieved by the annual program. Project selection is initiated by MDOT through an annual call for projects. The annual call for projects is based on specific needs and the program strategy and structure. Projects may originate from many sources, but the bulk originate from the districts, Maintenance, Design, Traffic and Safety, and Transportation Planning. Other sources include regional systems plans, 3C planning documents, and occasionally, requests by legislators.

A screening committee, made up of staff within MDOT, reviews all projects submitted. The purpose of the screening committee is to evaluate the projects on the basis of the program strategy, functional classifications, condition information and other factors that the committee deems appropriate, such as environmental concerns. The initial output of the screening committee is a preliminary program with projects assigned by program categories.

This initial program is circulated throughout the MDOT organization for review and comment. After reviewing comments on the projects, the screening committee will select the projects to be included in the final program. At this point, projects are prioritized and included in the final program, placed in the schedule, and sent to the Modal Subcommittee for review and approval of the environmental classifications.

The annual program provides a specific list of program categories and the expenditure level for each category for the given year. A schedule of the projects to be implemented during the year is also provided.

There are several benefits to this process. They include:

1. A deliberate, conscious setting of and agreement to overall goals and objectives.
2. An objective, realistic and definitive evaluation of the transportation needs and the resources available to accomplish the needs over a long time period.
3. An awareness of the trade-offs required under alternative program strategies.
4. The assurance that the projects entering our annual program are contributing to the goals and objectives set by management and the Transportation Commission.

VIII. STATE TRANSPORTATION FUNDS: SOURCES AND DISTRIBUTION

The Michigan Transportation Fund (MTF) is designated by Act 51, Public Acts of 1951, as amended, as the main receptacle for transportation funds in Michigan. Within the MTF, the two funds administered by the Department of Transportation (DOT) to finance state transportation modes in Michigan are the State Trunkline Fund (STF) and the Comprehensive Transportation Fund (CTF). The STF finances both the state trunkline highway system and state non-motorized facilities, such as bike-paths and horse trails. The CTF finances all other travel modes except air. The Aeronautics Fund is used for the state's system of air carrier and general aviation airports. Each fund will be discussed separately.

The MTF has two main sources of revenue: motor fuel taxes and vehicle registration fees.

A. Motor fuel taxes

The gasoline gallonage tax is 15 cents in calender year 1985 and 1986. Gasohol is exempt from a portion of the gasoline tax. The amount of the exemption depends on whether or not the ethanol used in blending is produced in Michigan or any other state providing an equivalent tax reduction, as shown here:

	Reduction in Gasoline Tax For Tax on Gasohol Containing Ethanol Produced In:	
Calendar Year	Michigan or Reciprocal State	Non-Reciprocal States
1984	4¢	1¢
1985	2¢	0¢
1986	1¢	0¢

The tax on diesel fuel is the same as for gasoline, except that a commercial motor vehicle of three axles or more may receive a discount of six cents per gallon.

B. Vehicle registration fees

The tax on a new passenger vehicle purchased after October 1, 1983 is 0.5 percent of the base price. The tax will drop by 10% for the succeeding two years, then remain constant for the life of the vehicle. The average tax on a vehicle under this system is $42. Passenger vehicles presently subject to the weight-based tax in effect prior to January 1, 1983, will remain on a weight-based tax. The average passenger-vehicle weight tax is $29.

I. Michigan Transportation Fund

A. Net taxes after refunds for vehicles not used on roads, streets, and bridges go into the Michigan Transportation Fund (MTF). The MTF has five off-the-top deductions, in the following priority:

1. "Administrative" costs of collecting the relevant taxes and certain other inter-departmental fund transfers are paid first.

2. 1.023 percent of the net gasoline tax revenue goes to the State Waterways Fund, administered by the Department of Natural Resources. The rationale for this is that a proportion of the gasoline taxed for highway use actually ends up by powering pleasure boats.

3. $3.5 million is allocated to the Mackinac Bridge Authority.

4. 10 percent of the balance is allocated to the Comprehensive Transportation Fund (see CTF following).

5. $5 million is allocated to the Critical Bridge Fund, which provides financial assistance for the improvement or reconstruction of existing bridges or for bridges to replace existing bridges.

B. Allocation of the balance of the MTF:

The balance is split between the STF (39.1 percent), County Road Commissions (39.1 percent), and Cities and Villages (21.8 percent).

II. State Trunkline Funds (STF)

STF revenues are from the share of the MTF as described above. The funds are used according to the following priorities:

1. For the payment of bonds, notes, or other obligations.

2. For the total operating expenses of the state trunkline fund for each fiscal year as appropriated by the legislature.

3. For the maintenance of state trunkline highways and bridges.

4. For the opening, widening, improving, construction and reconstruction of state trunkline highways and bridges.

5. For providing inventories of supplies and materials required for the activities of the state transportation department.

III. Comprehensive Transportation Fund (CTF)

CTF revenues are derived principally from a share of the MTF, as described above, and a portion of the sales tax on motor vehicle-related items. After refunds and administrative costs are deducted, 60 percent of the net motor vehicle-related sales tax is distributed to the School Aid Fund and 15 percent is distributed as revenue sharing to cities, villages and townships. The remaining 25 percent is divided between the CTF and the State's General Fund, with the provision that the CTF is to receive not less than 27.9 percent of the 25 percent. For FY 1985-86, the Governor's budget recommendation includes this statutory minimum of 27.9 percent for the CTF with the remainder included in the General Fund.

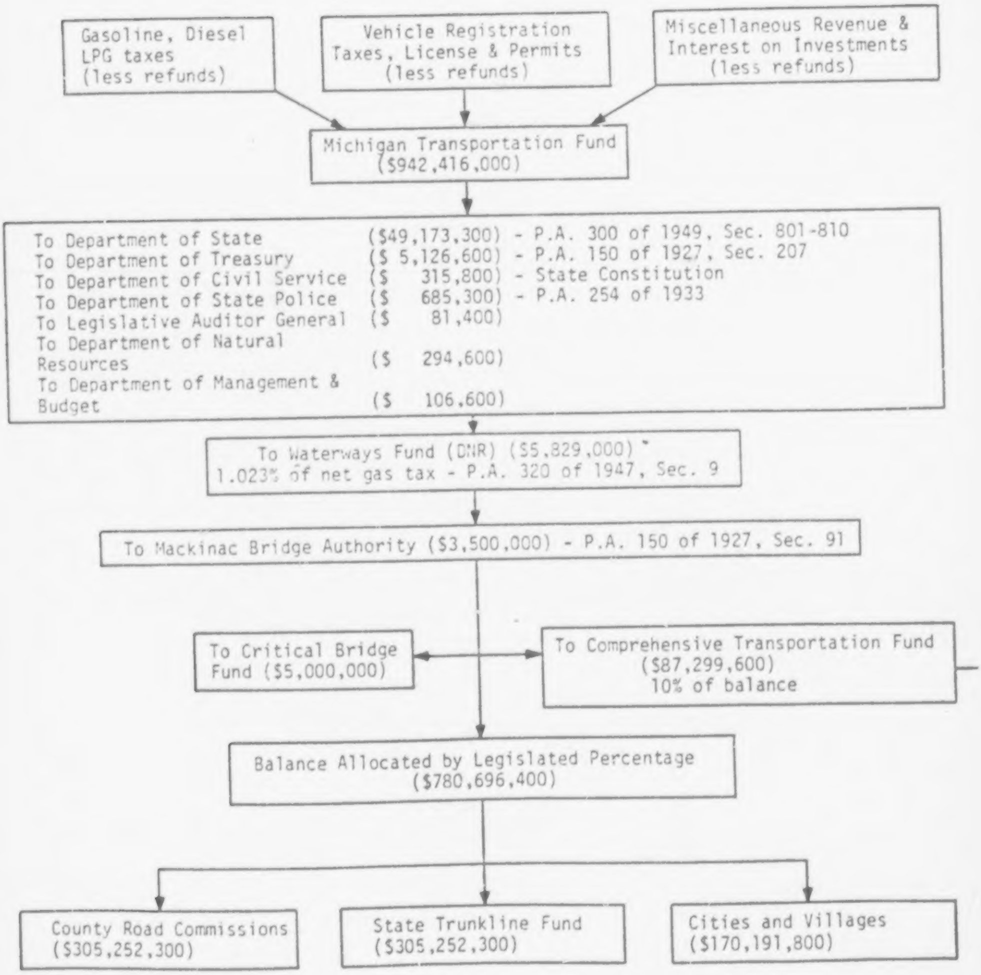
IV. Aeronautics Fund

Aeronautics Fund revenues come principally from taxes on jet fuel and aviation gasoline. The fuel is taxed at 3 cents per gallon for fuel used in general aviation aircraft and 1.5 cents per gallon for fuel used in commercial aircraft, regardless of fuel type. After refunds and administrative costs, the net goes to the Aeronautics Fund.

The following diagrams illustrate the amounts and distribution of the four funds:

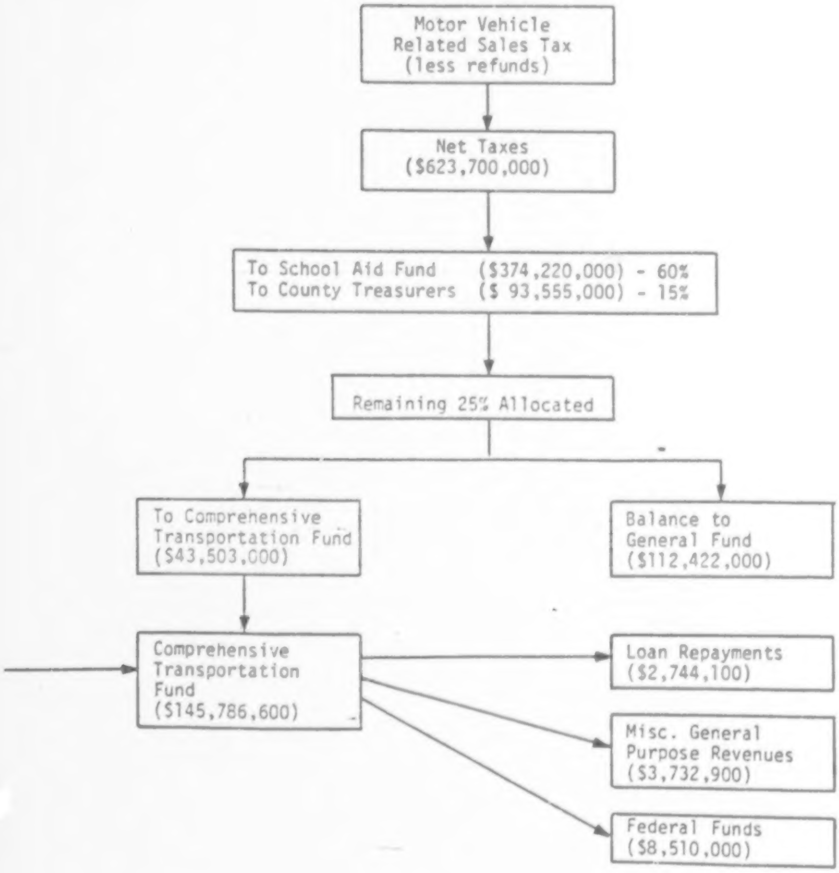
TRANSPORTATION FUNDS DISTRIBUTION

FISCAL YEAR 1985-86


Gasoline, Diesel LPG taxes (less refunds)
Vehicle Registration Taxes, License & Permits (less refunds)
Miscellaneous Revenue & Interest on Investments (less refunds)
Michigan Transportation Fund ($942,416,000)
To Department of State ($49,173,300) - P.A. 300 of 1949, Sec. 801-810
To Department of Treasury ($ 5,126,600) - P.A. 150 of 1927, Sec. 207
To Department of Civil Service ($ 315,800) - State Constitution
To Department of State Police ($ 685,300) - P.A. 254 of 1933
To Legislative Auditor General ($ 81,400)
To Department of Natural Resources ($ 294,600)
To Department of Management & Budget ($ 106,600)
To Waterways Fund (DNR) ($5,829,000)
1.023% of net gas tax - P.A. 320 of 1947, Sec. 9
To Mackinac Bridge Authority ($3,500,000) - P.A. 150 of 1927, Sec. 91
To Critical Bridge Fund ($5,000,000)
To Comprehensive Transportation Fund ($87,299,600) 10% of balance
Balance Allocated by Legislated Percentage ($780,696,400)
County Road Commissions ($305,252,300)
State Trunkline Fund ($305,252,300)
Cities and Villages ($170,191,800)

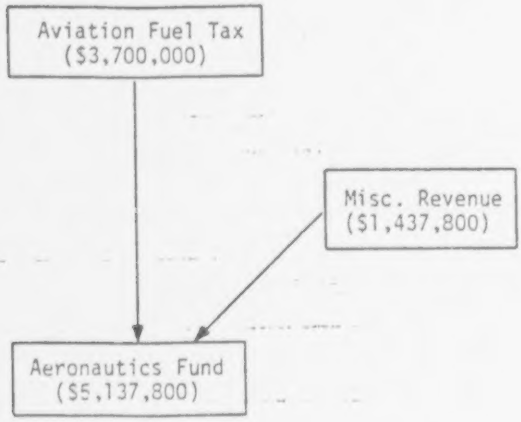
TRANSPORTATION FUNDS DISTRIBUTION

FISCAL YEAR 1985 - 86


Motor Vehicle Related Sales Tax (less refunds)
Net Taxes ($623,700,000)
To School Aid Fund ($374,220,000) - 60%
To County Treasurers ($ 93,555,000) - 15%
Remaining 25% Allocated
To Comprehensive Transportation Fund ($43,503,000)
Balance to General Fund ($112,422,000)
Comprehensive Transportation Fund ($145,786,600)
Loan Repayments ($2,744,100)
Misc. General Purpose Revenues ($3,732,900)
Federal Funds ($8,510,000)

TRANSPORTATION FUNDS DISTRIBUTION

FISCAL YEAR 1985-86


Aviation Fuel Tax
($3,700,000)
Misc. Revenue
($1,437,800)
Aeronautics Fund
($5,137,800)

APPENDIX D

THE FIVE YEAR CONSTRUCTION
AND MAINTENANCE PLAN
1985/86 - 1989/90
OF THE
NEW MEXICO STATE HIGHWAY DEPARTMENT

Prepared by:
New Mexico State Highway Department
Planning Bureau

In cooperation with:
U. S. Department of Transportation
Federal Highway Administration

December, 1984

Introduction

Simply stated, a "Five Year Plan" is the list of priority projects that the Highway Department proposes to build in a given five year period using the state and federal funds it anticipates receiving during that same time span.

Reasons for developing a Five Year Plan relate to the nature of highway planning, public involvement sessions, design, and construction. The highway project development process is complicated and lengthy. Depending on the location, complexity, and size of a construction project and the problems encountered during planning, public involvement sessions, design, and right-of-way acquisition (surveying, negotiation and purchase), project development may require up to 7 years, while project construction may take 6 to 36 months. Moreover, the department is in the process of developing many projects at any given time. For example, the most recent annual program lists 173 different projects, while this Five Year Plan contains 468 separate projects.

Clearly then, a highway program that addresses the needs of a 12,114 mile system in a rational manner must determine the needs of that system, forecast available funding, prioritize and select projects, and then schedule them so that each year the program of projects ready for construction approximates the funding available.

The Magnitude of "Needs" for the Highway System

Currently, the Highway Department has sufficient resources to build improvements estimated to cost $215.8 million for fiscal year 1985/86. Given the magnitude of this expenditure level, it may be difficult at first to understand why the overall condition of our roads and highways continues to deteriorate.

Table I illustrates the difference between system needs and system expenditures for the six years covered by the "1984 Needs Study." For the state as a whole, total needs will exceed expenditures by nearly $1.8 billion. The same study shows that the system's 20 years needs will be $7.6 billion, of which our greatest needs are occurring now, in the first 6 years of the 20 year period. Moreover, as improvements are postponed and roads continue to deteriorate, the cost of improving the highway system increases in two ways: the first due to inflation and the second due to the added costs of the more extensive repairs required.

TABLE I
HIGHWAY NEEDS
(1983/84 through 1988/89)
(000's)

Category	Needs	Less Planned Expenditures	= Unmet Needs
Rural			
Reconstruction	$1,303,288	$ 383,795	$ 919,493
Overlay	758,874	293,410	465,464
Bridge	164,947	74,108	90,839
Maintenance	598,900	524,900	74,000
Rural Subtotal	$2,826,009	$1,276,213	$1,549,796
Urban			
Urban Areas*	$ 448,540	$ 240,555	$ 207,985
TOTAL	$3,274,549	$1,516,768	$1,757,781

*Includes urban bridge figures. Does not include urban relief routes.

Roads that were built during the large growth years of the 1950's and 1960's have reached old age. Rehabilitation of this road system is costly, and road revenues haven't kept pace with accelerating road repair needs. Since the 1973 fuel crisis, several factors have contributed to the squeeze on highway upkeep:

1. Inflation has taken its toll in highway construction and maintenance costs, which have risen over 217% and 103% respectively in the last ten years.

2. Gasoline has also been dramatically affected by inflation — gas prices in New Mexico rose 300% between 1972 and 1984. But our state gas tax rate rose only 57%. Today's drivers pay much less tax as a percentage of the price of a gallon of gas, which translates to less relative road improvement revenues. The current state fuel tax rate of 11¢ would have to increase to 28¢/gallon to equal the 1972 gas tax rate!

3. Better fuel efficiency in new cars has also decreased fuel tax revenues nationwide. With improved miles per gallon, car drivers purchase less gas for the same amount of travel, reducing tax revenues. In 1974, the average annual gas tax paid by a vehicle was $50.61; by 1983, it had dropped to $37.17.

Roads are getting older and user revenues are not growing enough to meet road needs, resulting in a backlog of highway system inadequacies. Moreover, New Mexico has an especially large state road system and a relatively small population to support it. So, its revenue dollars are stretched thinner, compounding the road upkeep burden.

Unmet needs for improving and maintaining New Mexico's road system through 1989/90 stand at $1.8 billion. The Department's best efforts over the next five years will cover only 46% of road needs. Major categories of road needs are highlighted below:

1. Reconstruction/widening (major structural road improvements) - unmet needs will amount to $184 million a year for the next five years.

2. Urban - unmet urban (population 5,000 or more) road construction needs over the next five years are estimated to be $191 million. Another category of urban needs, traffic relief routes, is being addressed in several cities, with unmet needs totalling $270 million for these projects.

   The reconstruction and urban needs are pressing enough, but the Department considers New Mexico's overlay, bridge and maintenance needs even more crucial.

3. Overlay (new road surface which preserves pavement) - New Mexico currently has a backlog of 1,750 miles of federal aid primary and secondary road pavement in need of overlay treatment, with 300 miles added to the total each year. Since the current construction program only addresses 240 miles of pavement yearly, the backlog is growing 60 miles a year. Overlay improvements are relatively inexpensive. By substantially increasing the overlay budget, many miles of deficient pavement could be improved yearly: for example, by adding $30 million to the overlay program, 150 additional miles could be rehabilitated annually, which would eradicate the backlog miles in 19-20 years. New Mexico roads would be improved more frequently with the augmented overlay budget, enhancing rideability and safety for drivers.

4. Bridge - over the next five years, 375 New Mexico bridges will need replacement or rehabilitation in addition to the bridge improvements already budgeted. This amounts to over $107 million in unmet needs. If the bridge program could be increased by $14 million yearly, all unmet bridge replacement needs could be accommodated (though bridge rehabilitation needs would persist). These added improvements would benefit driver safety and economic activity in New Mexico.

5. Maintenance - the Department's maintenance program, which includes activities such as road patching, snow removal, and surface treatment, is hard-pressed to meet our needs. In fact, we are patching many roads that are really in need of overlay treatment. The increased patch work forces a reduction in other maintenance services. Thus, current funding levels are barely adequate, but may be reduced by expected revenue shortfalls beginning in 1985/86. These shortfalls could cut maintenance funds in devastating amounts by fiscal year 1989/90.

   It is easy to draw a conclusion about highway needs. We need much more than we can pay for. Needs continue to grow as they go unmet. It is not plausible to completely close the needs gap; but, with more effort we can narrow it.

THE LIMITATIONS OF HIGHWAY FUNDING

New Mexico's state highway revenues are derived from three major sources: federal user fees (33%), state road user fees (45%), and special appropriations made yearly by the State Legislature (21%).*

The "state highway system" includes highways, roads, and streets in both urban and rural areas throughout New Mexico. Seventy-three percent of our state highways belong to the Federal Aid System, which is composed of the Interstate, Primary, Secondary, and Urban Systems. Ninety-nine percent of the federal funds allocated to New Mexico are designated for these four systems. The remaining 1 percent goes to such special projects as research, vanpooling, and training.

In addition to the 8,799 miles on the Federal Aid system, New Mexico funds construction and maintenance on 3,315 miles of "other state" urban and rural roads that are not eligible for federal aid and are considered "local" in service nature.

Federal Funds

Federal-aid highway funds are derived from federal highway user taxes collected in the National Highway Trust Fund and apportioned by Congress to the states.

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*These are average figures; miscellaneous funds account for the remaining 1% and vary from year to year.

Using the appropriations and apportionment factors by program category listed in the Surface Transportation Act of 1982, estimates have been made of federal highway funding for New Mexico - $132,359,000 for fiscal year 1985/86. Since Congress has passed no further highway legislation, the department has used the latter figure as the estimate of federal funding available in fiscal years 1986/87 - 1989/90.

Waste Isolation Pilot Plan (WIPP)

In 1975, the U.S. Department of Energy (D.O.E.) began a search for a low level nuclear waste repository. After considerable effort, D.O.E. entered into a stipulated agreement with the State of New Mexico on July 1, 1981, to begin the WIPP site near Carlsbad. In order to ensure the safe shipment of nuclear waste, some existing highways had to be upgraded from their deficient condition. In this Five Year Plan, almost $63.9 million dollars is allocated to upgrade 203.25 miles of state highways (counting preliminary engineering as separate projects brings the total mileage to 401.75 as listed in Table III). Three Highway Department districts will be directly affected by highway construction and every quadrant of the state, except the southwest, will be affected by the WIPP operation.

State Funds

In New Mexico, several dedicated revenue sources support the state highway road fund. These revenues sustain the Highway Department's maintenance and overlay program, purchase of right of way, fund department administration and preliminary engineering, provide the necessary state match for federal-aid projects, and finance state road projects. Road fund revenue is derived from four major sources: gasoline tax, special fuels tax, motor vehicle excise tax, and motor carrier fees, which include mileage tax, weight-distance tax, oversize and overweight permits, and motor transportation fees. Motor vehicle registration fees and driver's license fees are additional sources of revenue to the road fund.

The State Road Fund receives about 85% of total New Mexico road user revenues, and counties and municipalities are allocated about 15% under state law. State road user fees comprise several categories of which motor fuel taxes are the largest. Gasoline and special fuel taxes accounted for over 56% of the total of $151.9 million in FY 1983/84 state road fund revenues. Motor vehicle fees accounted for about 26% and motor carrier (truck) fees for the remaining 18% of state road fund user revenues.

Severance Tax Bonds

Since 1977, the Legislature of the State of New Mexico has authorized the issuance of a total of $200,825,000 in Severance Tax Bonds for various highway projects. Over that 8 year period, the severance tax bond revenues authorized by the Legislature equalled nearly 14 percent of highway construction expenditures.

Although the Legislature has done an excellent job of funding highway projects in developing areas of the state that are presently ineligible for federal-aid, we find at the end of this Five Year Plan we will be $91 million dollars short of completing the projects which have been partially funded by the Legislature. These projects are listed on page ~~51~~. 38

THE PROJECT SELECTION PROCESS

The department has a systematic project selection process which programs the orderly advancement of highway projects from concept to completion. The Five Year Plan contains those projects that have advanced through the project selection process and are now scheduled for preliminary engineering, right of way, or construction in fiscal years, 1985/86-1989/90. The project selection process has four methods of prioritization:

Project Type	Prioritization Method
New Construction/Reconstruction	Current "Prioritization Formula"
Bridges (Including Off-System Bridges)	Current "Sufficiency Ratings"
3R/Overlays/Final Stages/ Interstate 4R	"Pavement Management" Rating Numbers
Other Categories (Interchanges, Safety, Urban, etc.)	"Benefit/Cost Analysis", Safety Analysis and other methods

Priority Rating System

The "Prioritization Formula" process starts each year when the department annually rates the condition of rural highway sections according to these criteria:

1. Structural adequacy, which assesses the present structural condition of the roadway in 2 ways, by its surface, and foundation and drainage characteristics. (Surface ratings are derived from the annual Roughness Survey and are rated on a scale of 0-30. Foundation and drainage ratings are derived from the annual Distress Survey and are rated on a scale of 0-20.)
2. Safety, which indicates the current ability of the road to safely carry traffic (rating scale 0-20).

3. Capacity, which measures the roadway's ability to accommodate the present traffic volume (rated 0-30).

Once the Rural State System is rated, each section of roadway is analyzed using a priority rating formula. This formula is comprised of four weighted factors: condition rating (CR) 50 percent, average daily traffic (ADT) 25 percent, accident rates (AR) 10 percent, and other factors (OF), unemployment rates and motor vehicle registration fees, energy/mining impacted areas and services to important centers), 15 percent.

The priority rating formula is (PR) = 100 - 10 ((.5 X CR) + (.25 X ADT) + (.1 X AR) + (.15 X OF)) .

This formula allows the department to prioritize road needs and rank them in order of importance. From this ranking, new construction/reconstruction projects are placed in the appropriate year of the department's Five Year Plan.

Bridge Sufficiency Ratings

The Highway Department biennially rates bridges, which are examined for structural adequacy/safety (55%), serviceability/functional obsolescence (30%), and need for public use (15%). A bridge that is entirely sufficient would have a rating of 100. A bridge that is entirely insufficient would be given a rating of 0. Bridges scoring between 50 and 79 are eligible for rehabilitation with federal funds; bridges scoring between 0 and 49 are eligible for reconstruction or rehabilitation with federal funds. Bridges are ranked according to sufficiency ratings; those with the lowest ratings are selected first for reconstruction or rehabilitation and are placed in the Five Year Plan.

Pavement Management System

The department also rates road surface according to its "Pavement Management" System. Road surface sections are surveyed for roughness (60%) and distress (40%), and resurfacing needs are then prioritized by the volume of average daily traffic. The "Pavement Management" System is used to prioritize our overlay program projects.

The purpose of the Overlay Plan is to maintain the pavement on the existing highway system in the best condition possible given the funding available until such time the roadway will need the more expensive reconstruction. Approximately $19.9 million a year has been programmed for the state overlay program in the Five Year Plan, a total of $99.6 million to renovate 440.5 miles of pavement.

Other Project Selection Methods

In benefit/cost analysis, project benefits are determined by summing three different types of benefits: 1) vehicle operating cost reduction benefits, 2) time reduction benefits, and 3) accident reduction benefits. Project benefits are divided by project costs. A project is considered economically beneficial if it has a benefit/cost ratio of 1.00 or over.

Several listings of accident locations are used to determine possible locations for safety improvements: a list of half mile sections with seven or more accidents per year, a list of accident locations by descending accident rate, and a list of fixed object accident locations by descending accident rate. In addition, district engineers recommend safety projects to be included in the five year plan. On-site inspections are performed as well as analysis of the types of accidents occurring, their possible causes, and appropriate highway design modifications. Finally, a list of safety projects with construction estimates is developed.

Projects in Urbanized Areas

Projects in Albuquerque, Las Cruces, and Santa Fe, the state's three urbanized areas, must be included in Transportation Improvement Programs (TIP) for those areas. The TIP is a priority listing of projects developed by the Urban Transportation Planning Policy Board. The Board consists of local elected officials who, through a cooperative effort, develop a transportation program for their area. Projects must be included in the TIP before they can be listed in the Annual Program or Five Year Plan to qualify for federal funding.

INTERSTATE PLAN

In the first two years of the Interstate Plan, many of the projects listed have already been let to contract and completed through a process termed "Advance Construction of the Interstate System" (ACI). In 1981, the Legislature created a $20 million revolving fund for ACI projects from the State General Fund. In 1982, the Legislature created an additional $32.8 million one-time fund for ACI construction, also from the General Fund. These funds have allowed the Highway Department to construct Interstate highways with state funds before the federal funds became available. We are grateful to the New Mexico State Legislature for its foresight in allowing us to complete the Interstate System by September, 1984, one of the first states to do so.

ACI funding partially explains the absence of projects in the Interstate Plan for the last three years; only projects listed in the "1983 Cost Estimate for Completing the Interstate System" are eligible for Interstate construction funds. Since the department has built all the projects listed in the cost estimate except for the three frontage road projects listed on page 1, no further Interstate construction projects are eligible for federal funding. The Five Year Plan assumes that Congress has extended funding of the Interstate System, and that New Mexico would be in a position, with the Interstate already completed, to request that its Interstate allocation, 1/2 percent of the national total (approximately $18 million annually), be converted to Interstate Rehabilitation (IR) funds and added to the existing IR program.

Future Direction of the Department

The 1985/86 - 1989/90 Five Year Plan is a bare-bones, no-frills, construction plan. Given our current situation, with needs for over $1.8 billion of rural and urban road improvements not being met, with a backlog of 1,750 deficient miles on the federal aid Primary and Secondary system needing improvements and about 300 additional miles of roadway becoming deficient each year, it will be very difficult for the department to catch up and very possible that large portions of the existing system will continue to deteriorate and eventually fail. Moreover, repairing roads before the onset of rapid disintegration costs about one fourth as much as it does after the rate of degeneration has increased. This means that the cost of repairing the system is rising even faster than the system is deteriorating.

There are many possible solutions to this problem: reducing the size of the system, increasing road fund revenues, and channeling more resources into the overlay program are but three. Perhaps a combination of them could be designed to meet the needs of the New Mexico State Highway System, the state's developing economy and the traveling public.

COUNTIES BY DISTRICT

District 1:	Socorro, Sierra, Grant, Dona Ana, Hidalgo, Luna
District 2:	Curry, DeBaca, Lincoln, Roosevelt, Chavez, Lea, Otero, Eddy
District 3:	Bernalillo
District 4:	Colfax, Union, Mora, Harding, San Miguel, Guadalupe, Quay
District 5:	San Juan, Rio Arriba, Taos, Santa Fe, Torrance, Los Alamos
District 6:	McKinley, Sandoval, Cibola, Valencia, Catron

APPENDIX E

ESTABLISHED PROCEDURES FOR DEVELOPING THE HIGHWAY CONSTRUCTION PROGRAM

SOUTH DAKOTA DEPARTMENT OF TRANSPORTATION
PIERRE, SOUTH DAKOTA 57501

CERTIFICATION STATEMENT

The contents of this document fully describe the procedures used by the South Dakota Department of Transportation to develop a prioritized list of highway construction projects to be implemented with Federal and State funds. Improvements are made on the basis of need as indicated by objective testing and supplementary engineering judgments from field inspections of the existing highway system.

The construction program provides a guideline for expenditure of anticipated highway funds and a framework for scheduling and directing the activities of those involved in preconstruction activities. A timely planning process is strictly followed to allow public involvement, coordinate projects with local governments and promote efficient operations within the Department of Transportation.

James R. Myers
Secretary
Department of Transportation

INTRODUCTION

The highway construction program is developed for a five-year period with the fiscal years beginning on October 1st and ending on September 30th. This is compatible with the Federal fiscal year because Federal-Aid Highway Funding comprises a large portion of the funding for transportation facilities in the State. This report delineates the procedure used to produce a report of prioritized construction projects. Staff recommendations are made and the Transportation Commission must approve the report before a final product is published for widespread distribution.

DEVELOPMENT SCHEDULE

A schedule of work tasks necessary for timely completion of the highway construction program and prioritized list of projects is prepared prior to October 1, the beginning of the new fiscal year. The Transportation Commission receives and reviews the "Development Schedule" prior to December so that analytical work can begin in January. When all activities and target dates have been deemed acceptable by the Commission, notice to proceed is given to the Division of Planning. The Development Schedule as established for the 1985-1989 Construction Program, shown in Appendix 1, delineates the manner in which State and Federal requirements associated with the comprehensive planning project are met. Railroad and airport facilities are also considered in the Construction Program.

PROJECT PRIORITIZATION FROM ROADWAY DATA

In order to provide and maintain an adequate, safe, efficient and economical highway transportation system, it is imperative that construction projects be selected objectively. This is accomplished by collecting and evaluating large amounts of data relative to physical and environmental characteristics of all highway segments eligible for improvements under State and Federal programs. By using computer technology to assess highway needs, subjective factors in the prioritizing process are reduced to a minimum.

The "Planning File", maintained by the Department's Data Analysis Program, contains the basic roadway data necessary to develop a plan for addressing improvements in accordance with available funds. This data bank is updated continuously as new information concerning traffic volumes, accidents and physical changes noted by routine monitoring systems becomes available.

In order to make uniform comparisons of highway segments, a ranking system has been devised utilizing ten criteria listed below. Par values for each factor are indicated and total 100 overall.

1. Surface Conditions (Par 25) - All elements inspected in the field during the Sufficiency Rating Study which pertain to the surface condition are used to assign the value for each highway segment. These values are weighted by traffic volume.

2. Rideability (Par 23) - Data used to determine the value for this item are taken from profilometer readings. A profilometer makes a mechanical measurement of the roughness of the surface. These values are weighted by functional classification.

3. Remaining Surface Life (Par 22) - This item is determined by the use of present serviceability rating (PSR) equivalents. These PSR values are composed of selected elements from the sufficiency rating field survey combined with the profilometer results. These values are also weighted by functional classification.

4. Drainage Adequacy (Par 7) - Conditions that permit water to stand on the surface are considered under this item. Highways with depressions that hold water are assigned less value than those with a good crown and even slope.

5. Surface Thickness (Par 5) - Values are assigned for ranking purposes in direct relationships to the surface thickness.

6. Surface Maintenance (Par 5) - Values are assigned in direct relationship to the average surface maintenance costs over the past three years.

7. Roadway Strength (Par 4) - Values assigned to this item are determined from dynaflect tests. These values are weighted by traffic volume.

8. Current Traffic (Par 3) - Values are assigned in relation to the volume of traffic in excess of 250 vehicles per day.

9. Current Truck Traffic (Par 3) - Values are assigned in relation to the volume of heavy trucks over 50 per day.

10. Friction (Par 3) - Values are determined by the use of a skid test trailer which establishes a skid number according to the braking pressure required on a wetted surface.

The weightings, as referred to above, serve to rank those highways with higher functional classification and more traffic volume ahead of the lower class, less traveled highways where all other factors are equal.

Listings of prioritized highway projects are prepared from the planning file and furnished to top management early in the nine-month timeframe established by the development schedule. These lists are sorted by system, region and type of improvement. Included on the lists are information on statewide priorities, system priorities, serviceability ratings, proposed improvements, preliminary cost estimates and traffic volume statistics.

FIELD INSPECTION

During the month of March, information is prepared containing reference materials which is used while making field inspections of all potential projects during the month of April. A minimum of two weeks is required to assemble the materials, which are as follows:

1. A prioritized listing of candidate highway projects produced from the computerized planning file for construction type and resurfacing type projects, sorted by the four highway regions.

2. Reduced prints of regional maps showing the projects in the previous highway construction program. A color key is used to indicate the type of work proposed. State ranking and program priority numbers are also shown.

3. Lists furnished by the Bridge Program indicating bridge replacement and bridge reconstruction projects.

4. Lists of construction and resurfacing projects recommended by region managers for their respective region. Justification for any changes from prioritized lists furnished by the Planning Division are explained in writing.

COST ESTIMATES

Average bid prices for materials placed during contractural agreements for highway projects recently awarded are used to determine the costs of quantities estimated for prospective highway projects. Costs are updated the first part of January and periodically thereafter until the new construction program is ready for printing.

AVAILABLE FUNDS

Information concerning estimated available funds for construction is obtained from the Federal Highway Administration, Fiscal Planning Program within the Division of Finance & Management and the Project Development Program within the Division of Engineering in March. Seven tables present dollar values as follows:

1. Estimated Federal fund apportionments.
2. Estimated available State funds and expenditures.
3. Estimated State highway revenues.
4. Estimated Federal fund apportionments and State match.
5. Estimated available State funds and obligations.
6. Estimated available funds for the construction program.
7. Estimated available funds for the construction program, by funding category (FA Primary, FA Secondary and Non-Federal).

Examples of the funding tables are shown in Appendix 2. In this case, estimated State and Federal monies for the 1985-1989 Construction Program are given to demonstrate the budgeting phase.

ALLOCATION OF FUNDS

Guidelines for the allocation of funds are documented in two parts. Appendix 3 covers the Guidelines for Allocation of Funds to High Volume Arterials, Low Volume Arterials and Minor Arterials. Appendix 4 concerns Guidelines for Allocation of Funds to Resurfacing Type Projects. Since the guidelines are self-explanatory, no additional discussion is merited herein.

COMPREHENSIVE REVIEW

Between mid-May and mid-June, central office staff and region managers thoroughly review all candidate highway projects. During this review, emphasis is placed on the principal arterial routes, considering gap segments and the ability of highway routes to carry legal loads without seasonal restrictions. Prioritized lists of highway construction projects are prepared in balance with anticipated revenues for each category. The prioritized lists of projects, tabulations and diagrams, constitute the staff's recommendations for highway construction projects.

STAFF RECOMMENDATIONS

The staff's recommended list of projects are presented to the Transportation Commission for review during the June meeting. Projects are sorted by program category for this review as follows:

1. Interstate 4-R Roadway

2. Interstate 4-R Structures
3. Federal-Aid Primary Construction Projects
    a. High Volume Arterial Construction/Reconstruction; High Volume Arterial Resurfacing
    b. Low Volume Principal Arterial Construction and Resurfacing
    c. Minor Arterial Construction and Resurfacing
4. State Secondary Construction/Reconstruction and Resurfacing
5. Bridge Replacement Projects
6. Bridge Reconstruction Projects
7. Federal Hazard Elimination Projects
8. Railroad Crossing Improvement Projects
9. Maintenance Gravel Stockpile Projects
10. Urban Systems Projects

To assist the Transportation Commission with their review, large maps are displayed indicating highway location, functional classification and traffic flow.

INITIAL COMMISSION INVOLVEMENT

During the June meeting, the Transportation Commission reviews the staff's recommendations of prioritized projects for each program category.

The Transportation Commission, after due consideration and discussion, authorizes public meetings to be held so citizens may review and comment on the proposed highway construction program. A public meeting is held in each highway region.

TENTATIVE CONSTRUCTION PROGRAM

The additions, deletions and other revisions ordered by the Transportation Commission at the June meeting are incorporated and an interim copy of the Tentative Highway Construction Program is produced.

Costs are revised and background information is prepared to distribute at the designated public meetings. Tentative programs are printed from mid-June to mid-July. Copies of the tentative highway program printed for informational purposes are marked "Subject to Revision".

TENTATIVE PROGRAM DISTRIBUTION

Tentative Highway Construction Programs as discussed above are distributed to Commission Members, region managers, central office staff, State Government Operations and the local councils of government and 60 days are allowed for the executive review process. The tentative program is reviewed by each region manager and planning district director before public meetings are held.

PUBLIC INVOLVEMENT

Public meetings are usually scheduled for the last week of July and the first week of August. Region managers are responsible for making arrangements for the meeting places. When the time and place has been set, a "Notice of Public Meeting" is published in each daily newspaper. Also, a notice is printed for posting within each Region containing the schedule of the public meetings.

Transportation Commission members and the Federal Highway Administration are advised of the schedule and location of the meetings. The Governor is also invited to participate by the Secretary of Transportation.

Notices of public meetings are also sent to the following:

1. County Auditor
2. Chairman of County Commission
3. Mayors of Cities and Towns
4. State Legislators
5. Indian Tribes and Bureau of Indian Affairs
6. Clubs and Organizations
7. Interested Citizens
8. Planning and Development Districts
9. Weekly Newspapers
10. Radio Stations

Testimony offered at the public hearings is put in a transcript for a complete hearing record.

SUMMARY OF PUBLIC COMMENT

All testimony received at the hearings and during the ten (10) day comment period after the hearings is compiled and assembled to distribute to the Transportation Commission, upper management and the region managers. Comments and inquiries received through the hearing process are answered by the Department under the signature of the Secretary.

COMMISSION REVIEW AND FINAL APPROVAL

The Tentative Highway Construction Program, public input and staff recommendations are reviewed with the Transportation Commission during the August meeting. Any necessary changes in the Tentative Highway Construction Program are made by that body and final approval is given for compiling the final document prior to October 1, the beginning of the Federal fiscal year.

PREPARE AND PUBLISH FINAL PROGRAM

All cost updates, changes, additions and deletions to the highway program are completed during late August. Maps, charts and other informational materials that will be included in the published booklet are updated. A partial checklist of items considered include:

1. Revision of available revenue
2. Revision of fund usage
3. Revision of names and addresses of officials
4. Revision of maintenance responsibility, sufficiency rating and functional classification maps

The report is prepared for delivery to the printer, and a proof copy is furnished to the Planning Division prior to mass production of the publication. 1,650 copies are printed for distribution as described in the next section.

DISTRIBUTION OF APPROVED PROGRAM

Distribution begins after printed copies of the report are delivered. Cover letters, explaining the contents of the construction program booklet, are sent with each report. A typical distribution is listed below.

	Number
Governor's Office	1
County Highway Superintendents	65
South Dakota Cities and Towns	192
South Dakota Clubs and Organizations	109
County Auditors	65
State Representatives	70
State Senators	36
South Dakota Daily Newspapers	17
South Dakota Weekly Newpapers	87
State Government Cabinet Secretaries	18
Other States	49
Planning and Development Districts	7
Indian Tribal Chairmen and BIA Superintendents	20
Radio and Television Stations	47
Associated General Contractors	350
State Library	14
Central Office - SDDOT	70
Region - SDDOT	60
Other Miscellaneous	223
TOTAL	1,500

It should be noted that the highway portion of the approved construction program is restructured to indicate highway projects by Counties of the State. This report is only printed for internal use.

POST-PUBLICATION REVISIONS

Despite all of the work done in developing a Five-Year Construction Program, unforeseen events or conditions may warrant certain revisions following the publication of a "final" report.

If this occurs, a procedure has been developed as shown in Appendix 5. Final approval of internal revisions are the responsibility of the Departmental Secretary. The Director of the Division of Planning notifies other key staff members of the Secretary's actions relating to these decisions.

APPENDIX F

The following supplemental materials were provided to Chairman Glenn Anderson with the original of this report:

1. "Secretary's Highway Program Visits", Kansas Department of Transportation, a document dated June 8, 1984, describing Sec. John B. Kemp's visits about Kansas to explain the highway program.

2. "Weights of Attributes and Adjustment Factors in the Priority Formulas For Roads and Bridges", a set of documents from the Kansas Department of Transportation.

3. "New Mexico Needs Good Roads - An Evaluation of State Highway Needs", an October, 1984 publication of the New Mexico State Highway Department.

4. "Five-Year Plan: New Mexico State Highway Department, 1985/86 - 1989/90", a publication of the New Mexico State Highway Department.

5. "Annual Program: Federal Aid Program, October, 1984 - September, 1985; State Program, July, 1984 - June, 1985", a publication of the New Mexico State Highway Department.

6. The appendices of the document "Established Procedures For Developing The Highway Construction Program" (Appendix E), published by the South Dakota Department of Transportation.

AMERICAN ASSOCIATION OF STATE HIGHWAY
AND TRANSPORTATION OFFICIALS

RICHARD P. BRAUN, President
Commissioner
Minnesota Department
of Transportation

FRANCIS B. FRANCOIS
Executive Director

COMMENTARY ON "SUPPLEMENT TO SPECIAL ANALYSIS D"

PREPARED BY

FRANCIS B. FRANCOIS, EXECUTIVE DIRECTOR
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TRANSPORTATION OFFICIALS

in response to a request made by members of the
SURFACE TRANSPORTATION SUBCOMMITEE OF THE HOUSE COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION

MAY, 1985

INTRODUCTION

This Commentary is made on the report "Supplement To Special Analysis D", which was sent to the Congress by the Executive Office of the President, Office of Management and Budget, on February 11, 1985. The report was required by Title II of Public Law 98-501, the "Federal Capital Investment Program Information Act of 1984", and is a supplement to Special Analysis D, "Federal Investment and Operating Outlays", of the President's budget for Fiscal Year 1987.

The comments presented in this Commentary are those of the author, based on his review of the report and on comments supplied to the author by several of the member departments of the American Association of State Highway and Transportation Officials (AASHTO). The Commentary does not represent the official views or policy of AASHTO, but rather its observations are offered to the members of the Surface Transportation Subcommittee of the House Committee on Public Works and Transportation, in response to a request from members of the Subcommittee made during a hearing on March 7, 1985 that such comments be provided.

GENERAL COMMENTS

The requirement for projections of investments in a number of domestic civilian programs contained in the Federal Capital Investment Program Information Act of 1984 was intended, among other purposes, to provide an overview of Federal capital infrastructure investments and an analysis of supporting investment policies. At a time when Congress and the American people are directing much needed attention to our infrastructure requirements at all levels of government, it is appropriate and useful to provide such an overview as part of the Federal budget process.

The report "Supplement to Special Analysis D" is a first effort at meeting the requirement of the Act. As such, it shows evidence of considerable expertise in capital improvement programming, and provides the reader with perhaps the first-ever overview of Federal expenditures for the domestic infrastructure programs included in the report. By providing in one document detailed investment information on transportation, wastewater treatment and water resource projects, housing, Veterans Administration hospitals and Indian health care facilities, public buildings, and space and communications facilities, both the scope of the Federal investments and the relative priorities among the different programs are clarified. Also apparent in this first report is that some capital requirements are better documented than others, and that at present there is an absence of overall consistency in approach.

Looking at the area of roadways and bridges, there is a reasonably good national assessment of requirements, even though there may not be full agreement on the validity of those requirements. The same level of detail is at present lacking in most other programs. One question raised by the report, therefore, is "What standard of needs assessment should be utilized in Federal capital investment planning?" Some related questions are: "Is uniformity in approach among the different Federal domestic investment programs desirable?"; "Can uniformity in approach be achieved, given the different jurisdictions and delivery mechanisms involved in the several domestic programs?"; and "Is the effort and cost that would be involved in developing a consistent, relatively uniform needs assessment process among the different investment programs worthwhile, and will it result in better decisions?"

These are all questions that the Committee may want to consider, and offer guidance on. Another area the Committee may want to review is the policy setting or policy basis to be used in any future reports like the 1985 "Supplement To Special Analysis D". The 1985 report, as was noted by several of the States providing comments to the author and as is evident from a reading of the text of the report, is based upon and supports the political viewpoints of the current Administration and the current leadership of the Office of Management and Budget. If the Committee and Congress want future reports to be written from some other policy perspective, then it will probably need to find a mechanism for giving the necessary guidance to the Office of Management and Budget. An alternative would be to have the Congressional Budget Office or some other agency of Congress prepare the analysis, an approach which would of course break the positive linkage of the report to the Administration's budget.

A few examples will demonstrate the linkage between the approach taken in the 1985 report and the announced policies of the present Administration. On page 50 of the report there is a discussion of Federal versus State and local responsibilities with relation to infrastructure, and as part of that discussion the report cites the President's infrastructure policy and outlines gains the Administration believes have been made toward satisfying that policy. State and local government needs are then analyzed in light of the President's infrastructure policy, which of course drives the conclusions and recommendations of the report in that direction. But the full application of the President's policies have not been adopted by Congress and applied to Federal infrastructure investment.

On page 3-9, the report contains the comment, "Federal assistance has allowed transit operators to avoid making the hard decisions on fares, service levels, wages, and operating policies that have to be made in order to reverse the decline in transit productivity that has occurred over the past 15 years." This is of course a position taken by the Administration, and belief in it is part of the undergirding for the Administration's budgetary recommendations on mass transit. But this statement has not yet been accepted as accurate by the Congress, and is challenged by State and local officials and transit agencies across the nation.

One final example of how the Administration's policies are woven through the report is found on page 1, where the statement is made:

> "For the 11 categories of public civilian investment reviewed here, this report finds that current Federal investment levels are generally sufficient to maintain investments that are of national importance."

This is clearly the opinion of the Administration, and it is their right to state it. But that same opinion needs to be taken into account by Congress and others when evaluating the report, since it is part of the policy basis on which it was prepared.

This discussion on the intertwining of Administration policy, requirement assessment and program levels contained in the report is intended only to call attention to the situation, and to highlight the difficulty of obtaining a totally objective overview of infrastructure requirements for a nation as large and governmentally complex as the United States. Nor are differing or non-consensus policies the only problems to be faced in preparing such a report. Another area of difficulty, as the report amply highlights, is the matter of how different governmental agencies approach "need", and more basically, obtaining any generally acceptable definition of 'need" in the several programs addressed in the 1985 report.

It would seem that if Congress and the Federal government want a totally objective national analysis of "needs" or "requirements", it will first be necessary to settle on acceptable definitions of, or standards for, measuring need. But given the 3,000 plus county governments in this nation, more than 30,000 municipal governments and even more special districts, and the 50 states and the diversity all of this represents in geography, urban and community development patterns, rural conditions and individual outlook, it will be extremely difficult if not impossible to obtain consensus in this area.

The definition of a "need" often depends upon the situation faced by the governmental unit, and the people it serves. For example, New York City has a "need" to preserve and operate a large-scale subway system, because with its density of development the city cannot function without such a system. A small town in Alaska may also have a "need" for a transit system, not a subway, but a small fleet of buses. Obviously, this "need" has nothing to do with dense urban development; rather, the "need" is present because the geographically-isolated community has only a few miles of roads unconnected to any highway system so that automobiles are impractical, and yet the residents need to move over more distance than walking will conveniently allow. The answer is a small bus system, and experience has shown that when this "need" is met ridership is often very high.

In this example, both New York City and the Alaska village have a transit "need", but the two "needs" are very different in concept, the solution to be applied, and costs. To write an objective national definition that fits both "need" situations would be difficult.

Turning now to the Federal-aid Highway Program, different situations exist depending upon the categorical program being addressed. For the Interstate System, the highest level of America's highways, the States and the Federal government have developed standards for design and construction that apply nationwide, and the system itself is clearly established by law. The mission for the Interstate System is to provide a system of multi-lane, divided, limited access highways reaching into all the States, to link our major cities and the States to each other. Given the desire to establish and maintain a desired level of service on the Interstate system, engineers can with reasonable accuracy calculate the investment required to meet the system's mission. Thus, "need" is relatively easy to determine nationally.

Moving now to a rural road located in a remote part of one of the states which is eligible for assistance under the Federal-aid Secondary program, determining "need" is more difficult. The secondary roads of our nation were not built to a national standard, as was our Interstate System; indeed, within a State different secondary roads may have been built to different standards, to meet differing traffic conditions and other factors. Whereas in the Interstate System the goal is to establish essentially the same kind of highway in both urbanized and rural States, without regard to the nature and intensity of traffic, the same is not true for secondary roads. Rather, secondary roads are usually designed to accommodate the expected need, and in a sparsely populated rural area traffic can be very light, allowing a minimum facility. Given this condition, it is difficult to assemble a national "need" for the secondary road system; indeed, even within a State this task is often difficult because of the different perspectives of local cities and counties and the highway users.

The point is, some "needs" are easier to measure than others. In some instances, as with the Interstate highway system, needs can be fairly easily established. In other programs, as with secondary and local roads,"need" is more difficult to determine; but it can be done, and is usually done best by State and local governments.

The report takes perhaps a too pessimistic view toward determining "need", and essentially concludes it cannot be done. Thus, the report basically finds that "needs" in the area of public infrastructure are best defined in terms of what funding is available. This viewpoint is not accepted by all State and local governments, many of whom have very sophisticated capital improvement planning and programming systems that are based on "needs", as determined from the perspective of the governmental jurisdiction and its constituents.

If the Congress wants to make public infrastructure investments on the basis of "needs", it has at least the following choices of approach. First, it can simply define "need" as being the level of funding Congress believes can be made available. At the other end of the scale, it can proceed to cause a comprehensive "needs" assessment process to be created that will function in all program areas, based on agreed upon definitions of "need" and appropriate standards; as noted earlier, this would be a very large, controversial and expensive task. Another approach would be to accept determinations of "need" made by the elected officials of State, city and county governments, through the legal processes established under State and local laws. In a Federal-State-local governmental partnership where the three levels of government mutually respect each other's capabilities and believe in reasonableness, this approach is well worth considering.

Finally, some blend of these approaches might be utilized. Where, as with the Interstate highway system, there is a national uniformity and a clear national goal, actual "needs" can be calculated, related to the desired level of service. Certainly this is true for the Interstate completion program, and by accepting the findings of the Federal Highway Administration as to the condition and needs of the Interstate System, reasonable funding requirements for maintaining the desired service levels on the Interstate System can be calculated.

For those elements of the infrastructure where there are no national standards, the Congress might accept the officially developed "needs" calculations made by their partners in government, our States, cities and counties, or at least use those "needs" calculations to set a level of Federal funding. By at least accepting State and local "needs" determinations and taking them into account when setting a level of funding, the Congress could set a desired level of participation toward meeting needs at these governmental levels. This concept, coupled with the use of block grants and the ability of States and local governments to set their own priorities among the funded programs, would provide a rational system, one that would be largely self-regulated by the States and their local jurisdictions. At the same time, the need for Congress, or the Office of Management and Budget, to create a large-scale needs assessment process might be avoided.

Looking now at AASHTO, it has made no specific recommendation on which, if any, of these approaches to follow for all Federal public infrastructure investments. However, the Association has recently adopted a set of official policies relating to the future of the Federal-aid Highway Program that bear on this discussion. Under those AASHTO policy recommendations, the nation would move toward establishing a two-tier highway program. The first, or upper, tier of the program would be a System of Highways of National Significance (SHNS). Included here initially would be the Interstate System, the highways constituting the present Federal-Aid Primary System, and the bridges on the Federal-aid highway system. There would then be an examination made nationally of what existing and future highways should ultimately be included in this System of Highways of National Significance, perhaps by a Congressionally-created commission, and when this work was completed, the SHNS would be formally established. The mission of the highway network of the System of Highways of National Significance would be much the same as that of the current Interstate System, to interconnect all the States and their principal cities with a relatively uniform system of high quality highways, supported largely at the Federal level together with funding from the States. Much the same as is now possible for the Interstate System, it would be possible to make a determination of the Federal investment requirements for the highways and bridges of such a System of Highways of National Significance.

The second, or lower, tier of highways proposed in the new AASHTO recommendations is a Program of Highways of State and Local Interest, highways in which there is some Federal interest but which are State and local, rather than national, in character. Here would be included the highways currently contained in the Federal-aid Urban and Secondary Systems, and our off-system bridges, with the understanding that in the development of the SHNS some of the highways now on the Urban and Secondary Systems might be elevated to the SHNS, while some highways now on the Primary System might be relegated to this second tier of interest. AASHTO recommends that the States be given the option of receiving funding for this State and Local Program in block-grant form, to ease the Program's administration and provide the States and their local governments the ability to make priority judgments and maximize available funding.

It is recognized that the "needs" of such a Program of Highways of State and Local Interest are large in aggregate, but that it would be difficult to develop an objective national listing of those needs. Thus, in this instance Congress might instead evaluate the level of needs as determined by the States and local governments, and set a Federal investment level commensurate with what is perceived as the Federal interest in meeting those needs. The use of the block grant approach would then simplify the administration of the Federal funding provided to the Program, and would require the State and local governments to make priority judgments, presumably on the basis of the needs as they determine them.

To conclude this portion of the discussion, after having made a number of what may be perceived as criticisms of the 1985 report, two important observations are in order. First, this is an initial effort at doing what is a very difficult job. Thus, even with whatever flaws might be present, the report is a great advance over anything heretofore available; the Congress should be gratified that its 1984 legislation has resulted in such a document being assembled.

The second fact that needs to be recognized is that the Office of Management and Budget has done a creditable job for the first-ever report of its kind, even though not everyone may agree with the report's approach and findings.

The overall organization of the 1985 report makes it easy to review. The "Overview" section is concise, and clearly describes the basic approach.

Finally, the individual chapters are well organized, and state the situation. The 1985 report, as to format and approach, compares favorably with the similar documents produced by many States and local governments.

There is one general topic missing from the 1985 report, however, perhaps because as noted earlier it is written from one particular ideological point of view. The analysis is silent on the cost to society from inadequate infrastructure. It thus seems to conclude or assume that any decrease in Federal funds will have no harmful effects, which is not true, and that in any case the States and local governments can easily make up for the absent Federal investment.

The ability of State and local governments to fill any infrastructure funding gap created by withdrawal or curtailment of Federal funding is questionable at best, and is simply not true for many of those governments. Beyond that, there are some programs where State and local governments cannot function effectively. It is hard to imagine a State-initiated solution that would have responded satisfactorily to the bankruptcy of the Penn Central Railroad, or which would keep Amtrak operating passenger trains nationally. Where it is decided by Congress that there is a national interest in such efforts, the Federal government is clearly in the best position to produce results; and often those results will require large Federal investments.

There also is perhaps too much effort made in the report to justify positions previously taken on specific programs by the Administration. One of our member departments has noted:

> "For programs set by the Administration for elimination (Amtrak, Conrail), infrastructure needs are presumed to be zero. For programs targeted for major cuts (transit, aeronautics), capital needs are deemed unobtainable, albeit for what may be good reasons. Needs estimates for ideologically acceptable programs made by appropriate Federal agencies are considered suspiciously high."

Perhaps it is inevitable that a document of this type prepared by the Executive Office of the President will support positions taken by the Administration. But it would have been useful to at least acknowledge that the curtailment or withdrawal of the Federal government from infrastructure programs will make a difference to the nation, and to examine both the organizational and fiscal ability of State and local governments to then meet the needs in such programs.

CHAPTER COMMENTS

The author's and AASHTO's primary concerns with the report are directed at its transportation components. The following specific observations are offered on individual chapters, based on comments provided the author by several States.

ROADS AND BRIDGES - Chapter 1

The conclusions of the report regarding the total needs of the Federal-aid highway system is that the present "investment level is in line with projected needs." That conclusion is not supported by the Association, which has found requirements of the Federal-aid system to be substantially in excess of current program levels, even if they are fully funded; Congress, of course, is debating a reduced obligation ceiling at the time this Commentary was written, significantly reducing even the current program.

A copy of a just released AASHTO Report, titled "A New Focus For America's Highways: Recommendations On The Federal-Aid Highway Program", estimates that the total required highway investment on the Federal-aid highway system, Federal, State and local funds combined, is $26.0 billion for Fiscal Year 1987, climbing to $29.7 billion in Fiscal Year 1995. The Federal share of that investment, assuming current programs and match ratios, would be $21.2 billion in Fiscal Year 1987, climbing to $23.5 billion in Fiscal Year 1995. These funding levels are sharply above current authorizations, and do not include expansion of the system.

The investment requirements as determined by AASHTO and contained in the afore mentioned AASHTO Report are regarded as conservative by the professional highway engineers who developed them. It is judged that such a funding level, which takes into account an inflation factor of 4% per year, will simply allow the States to maintain a ride quality and level of service comparable to 1980, and accommodate a modest 2.4% annual increase in vehicle miles travelled. These goals simply cannot be met by the level of funding which the Office of Management and Budget concludes is "in line with projected needs".

It may be that funding levels as identified by AASHTO cannot be achieved, by some combination of Federal, state and local funding sources. If so, then it must be recognized that the inevitable result will be deterioration of the ride quality and level of service available to highway users; the laws of engineering and physics will so mandate This is an example of where the 1985 report fails to point out that insufficient investment in our highway infrastructure will have a negative impact on the nation.

We are pleased to note that the 1985 report, setting aside the problem of adequate funding levels, generally supports the two-tier concept being advanced by AASHTO for the Federal-aid Highway Program, and recognizes possible merits in the use of block grants and providing greater flexibility in the use of Federal funds intended for highways that are primarily of State and local interest.

Another area not properly addressed in this Chapter is the impact Congressional mandates can have on investment requirements. For example, the report infers that since the passage of the Surface Transportation Assistance Act in 1982, the motor carriers are now paying their full share of highway costs. It must be recognized this is not true, based on the cost allocation models utilized by the States and the Federal Highway Administration. It may be true that Congress believes the level of motor carrier taxation set in the 1982 Act, as amended in 1984, is all that motor carriers can be expected to pay; but the taxes paid under the provisions of those laws fall significantly short of paying the full costs imposed by the motor carriers. Beyond that, the motor carrier taxation levels set in the 1982 and 1984 Acts of Congress pay only those costs as extimated in 1982; they do not compensate for the additional expenses to the States for accommodating the 48 foot semitrailers mandated by the 1982 Act, and other benefits provided to motor carriers that impact on highway design and construction.

AIRPORTS AND AIRWAY FACILITIES - Chapter 2

A key conclusion of this Chapter is that the National Airspace System needs to be modernized, a finding supported by the member departments of AASHTO.

One proposal of this Chapter that is questioned by some is that States, localities and airports should be allowed to assess user fees directly on passengers through "head taxes", which would require a change in Federal law. The proposal would impose such taxes selectively to help reduce peak demand.

One ground for opposing such a head tax is that effective flight scheduling must reflect the needs of travelers to meet their own schedules, which are largely based on the business day. In addition, the airlines have needs related to minimizing delays between flight connections, where excessive delays can seriously impact productivity in what is now a highly competitive market. Previous proposals for such head taxes have generated considerable controversy, and it is believed those same concerns still exist. Thus, the practicality of what is proposed must be questioned.

MASS TRANSPORTATION SYSTEMS - Chapter 3

As was noted earlier, the 1985 report is written to support the Administration's adopted positions on the programs addressed. Nowhere is this more evident than in this Chapter.

This Chapter does not fully assess the condition and needs of the existing mass transit facilities of the nation, nor does it fully address new starts. The section on operating and maintenance costs does not adequately address the impact of withdrawing Federal operating assistance, although admittedly solid information is somewhat difficult to obtain; but there would clearly be a negative impact if the Federal investment level is lowered.

The Chapter cites data on labor and operating costs that are questioned by many, and provides little balance in its viewpoints. In short, it seems to have been written in justification of the transit recommendations of the Administration, which as noted earlier may be the inevitable result of having the Administration prepare and submit such a report. No recognition is given to the fact that many mass transportation systems have been developed to relieve congested highways and save energy, and to avoid the high costs of roadway system expansions. Nor is adequate policy recognition given to the action of Congress in the Surface Transportation Assistance Act of 1982, establishing the one-cent per gallon fuel tax set aside for the Mass Transit Account.

RAILROADS - Chapter 4

The 1985 report essentially assumes the sale of Conrail, and acceptance of the Administration's recommendations on Amtrak. The former action is under examination by Congress, and the later is strongly opposed by many, including some AASHTO member departments.

Again, there is inadequate analysis of the removal of Federal involvement, this time with respect to Amtrak. Looking especially at the Northeast corridor, Amtrak is an important element of a multi-state mass transportation system, in a region where highways are already heavily congested. There is also some question about the ability of the states involved to absorb the absence of Federal funding, which is in addition to the question of whether or not the states could solve the unprecedented organizational issues they would face if Amtrak is eliminated. Given that millions of Americans would be more or less affected by the elimination of Amtrak, a much more extended analysis and discussion of alternatives would have been helpful.

SUMMARY

The purpose of this Commentary is not to discuss every detail of the 1985 report, nor to comment on or challenge each part of the data, findings or recommendations. Rather, the Commentary is intended to provide some overall observations on the report, the first delivered under the "Federal Capital Investment Program Information Act of 1984". In addition, some discussion of specific issues is included, to highlight elements of the report's content and indicate the nature of the issues presented.

It is hoped that the Commentary will be useful to the full House Committee on Public Works and Transportation, both in connection with Congressional analysis and preparation of any response to the 1985 report, and with regard to infrastructure financing legislation now being considered by the Committee.

As requested during the hearing on March 7, 1985, a copy of this Commentary is being provided to all members of the Committee. The author and AASHTO will be pleased to provide any further information or comments requested.

AASHTO NEWS

FOR IMMEDIATE RELEASE
May 3, 1985

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AASHTO EXPLORES FUTURE OF PUBLIC TRANSPORTATION

Continued federal, state and local funding for operations and capital expenditures is essential to the future of public transportation in the United States, but states must prepare to assume an increasing share of costs in light of federal deficits.

Those are among the findings of a report published by the American Association of State Highway and Transportation Officials titled "A Study on Future Directions of Public Transportation in the United States", the first in an expected series of "AASHTO Reports" on transportation issues.

The report discusses and analyzes the current status and future prospects for public transportation in the nation. It also includes recommendations directed toward the federal government, state governments, local governments, public transit operators, labor, private operators, the business community, transit users and industry associations, aimed at the development of a more effective and viable public transportation industry.

The report identifies three primary areas of emphasis and a number of lesser themes which define the future needs and role of public transportation.

- The first major theme is that the continuation of the federal-state-local intergovernmental partnership in the funding of capital and operating programs is both warranted and essential to the future of public transportation.

- The second finding is that state and local governments will have to continue to increase their financial commitment to public transportation due to the fiscal limitations of the federal government, and continued increasing deficits which result from such services.

- The third emphasis of the report addresses the need for public transit managers to control costs through the implementation of more favorable labor contracts, increased efficiency in the delivery of services, the development of strategic planning and other techniques which promote the managerial decision making process.

(more)

The Report was accepted by the AASHTO Policy Committee in February. The recommendations of this AASHTO Report have not been submitted to formal balloting by the member departments, and thus do not constitute policy statements of AASHTO. Rather, this AASHTO Report and its recommendations are offered for discussion purposes, and for consideration by AASHTO and others when setting public transportation policy. The AASHTO Standing Committee on public transportation will be considering the recommendations together with present AASHTO public transportation policy statements, and may be recommending new policy statements for consideration by the member departments.

A copy of the printed report is enclosed. Single copies may be obtained for $5 each from AASHTO, 444 N. Capitol St., N.W., Suite 225, Washington, D.C. 20001.

AASHTO is a national public-sector organization founded in 1914 comprised of the 52 state highway and transportation agencies, including the District of Columbia and Puerto Rico. The association works to develop and improve the construction, operation and maintenance of a national transportation system.

* * *

AASHTO REPORT

A Study on Future Directions of Public Transportation in the United States

1914

Accepted by the AASHTO Policy Committee
February 22, 1985

This AASHTO Report discusses and analyzes public transportation in the U.S., and includes recommendations for consideration by AASHTO and others when setting public transportation policy. It does not constitute policy for the Association, which requires separate action by the AASHTO Policy Committee.

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FOREWORD

This report was prepared by the Task Force on Future Directions of Public Transportation of the AASHTO Standing Committee on Public Transportation. Members of the Task Force included Chairman John P. Sheridan, Jr., New Jersey; Project Coordinator Michael D. Meyer, Massachusetts; Lee Deter, California; Leon Goodman, Port Authority of New York and New Jersey; Michael D. Kidd, Virginia; Robert S. Neilsen, Washington; Jerry Premo, New Jersey; Clyde E. Pyers, Maryland; Kenneth E. Shiatte, New York; Ron Spies, Iowa; William Stringfellow, Colorado; and William Underwood, Pennsylvania.

The Task Force was established in late 1983 by Duane Berentson, Chairman of the Standing Committee on Public Transportation and charged with conducting a review of the public transportation program, and developing recommendations for its future. As part of its considerations, the Task Force reviewed information available from numerous sources and gathered comments from a number of transit interest organizations. Comments were also received from AASHTO member departments and considered in the preparation of the final report.

The report was accepted by the Policy Committee on February 22, 1985. It includes recommendations to be considered by AASHTO and others when setting public transportation policy. It does not constitute policy for the Association, which requires separate action by the AASHTO Policy Committee.

CHAPTER 1

THE FUTURE OF PUBLIC TRANSPORTATION

1.0 INTRODUCTION

Public transportation is an important component of a total transportation system, and serves important national, state, and community objectives. Currently, however, public transportation is facing an uncertain future. Loss of support from traditional funding sources, increased costs of labor and fuel, and new institutional relationships are potentially serious threats to the survival of many public transportation systems and services.

The AASHTO Standing Committee on Public Transportation decided that a comprehensive study should be undertaken to investigate the current problems facing public transportation, examine the innovative actions being adopted throughout the U.S. to solve these problems, and identify the key components of a national and state public transportation strategy. This report presents the findings of the task force established to conduct this study. In a very important sense, this report represents a national effort on the part of state transportation agencies to identify the important role they can play in supporting public transportation, in cooperation with the federal government, the private sector, and local communities.

1.1 DEFINITIONS

Before discussing the current status of and future possibilities for public transportation, it is necessary to define the key terms that will be used in this report. The AASHTO policy relating to public transportation states:

- Public transportation is not a single mode, but a mixture of modes (transit, ridesharing, and paratransit) each complementing the other and interacting to form a system for passenger mobility and a cost-effective group of services. Public transportation is an integral part of the surface transportation system, and helps to make the system work by reducing peak period congestion, maximizing the use of existing facilities, contributing to many social, economic, and environmental objectives and reducing the demand for energy.

Public transportation is thus a generic term used to define a dynamic transportation service activity. Included within this term are the following types of modes:

Public transit (mass transit)—passenger transportation service, usually local, that is available to any person who pays a prescribed fare; it operates on established schedules along designated routes with specific stops (e.g., bus, light rail, rapid transit).

Paratransit—forms of public transportation services that are more flexible and personalized than conventional fixed-route, fixed-schedule services (but not including such services as charter bus and exclusive-ride taxi vehicles) which are usually available to the public on demand, by subscription, or on a shared ride basis.

Ridesharing—two or more persons traveling by any mode of transportation, including but not limited to: carpooling, vanpooling, buspooling, shared-ride taxis and jitneys, and public transit. In its most familiar form, ridesharing refers to the commuter work trip, although ridesharing for nonwork trips (such as travel to recreational and shopping areas) is increasingly common.

1.2 BASIC ASSUMPTIONS

Throughout this report, the analysis of public transportation options is based on certain assumptions about the economic and social context in which the public transportation will operate. Many of these assumptions are explored in greater detail in Chapter 6, but in summary form they serve as a useful point of departure for the rest of this report. Mostly, these assumptions relate to the period 1984-2000, although in some cases the time horizon is longer.

- *Continued growth in population and households*—The population of the United States in 1983 is estimated to be 233 million persons. It is anticipated that by the year 2050 the population will increase some 33 percent and total approximately 309 million persons. At that time (2050), growth rates are expected to decline with a general stabilization in population growth.
- *Average age of the population will rise*—The median age of the U.S. population is 30.6 years. The proportion of the population age 65 or above is 11.6 percent, which is the highest level ever attained by this group. In the year 2000 the median age will increase to 36.3 years, and the age 65 or above group will comprise 13.1 percent of the population.
- *Increased urban congestion*—Between 1960 and 1980 urban areas showed a growth rate greater than rural areas. This growth, which

is expected to continue, was almost exclusively in small urban areas. During the period 1984 to 2010, the automobile population is expected to increase from 109 million to 146 million. This growth in the smaller cities combined with an influx of additional automobiles will result in increased urban congestion, especially in the suburban areas of metropolitan regions.

- *Increased demand for social services*—Demographic projections reflect a higher growth rate in the aged, minority, and handicapped groups as compared to the population at large. Traditionally these groups have required a higher level of social services. Also, as the general population grows increasingly urban, expectation for services will correspondingly increase.
- *Shortage of funds to meet all needs*—Resources to meet all social needs have always been scarce. In the short term, the magnitude of the federal deficits will compound the problem. There is a distinct possibility that the deficits could in fact be a long-term problem.
- *Strong demand for increased mobility*—The current trend toward increased mobility will continue. This is brought about by an increase in recreational travel, the creation of decentralized work sites, changes in housing patterns, changes in retail shopping practices and dynamic demographic changes.
- *Limits to dispersion in some areas*—There are centers of population and commerce that are geographically constrained in their ability to physically grow. Examples are San Francisco, Seattle, and Manhattan Island. This will translate into higher population densities and the inability to accommodate vehicular traffic.
- *Automobile continues as preferred mode*—There is little to suggest that in the foreseeable future Americans will voluntarily decrease their reliance on the private auto. The automobile fleet will continue to grow, increasing by some 35 percent over the current level by the year 2010.
- *Dependency on foreign oil will increase*—Currently the United States imports some 28 percent of its petroleum supply. Some industry forecasts project that the percent of imports will increase [illegible] 50 percent by the year 2000. The potential ramifications of increasing reliance on imported petroleum are obvious.
- *No significant advances in new fuel technology*—Development of alternate fuels is a function of price and availability. Currently adequate supplies of fuel are available at prices perceived to be reasonable. Thus, for the foreseeable future, the transportation sector will remain dependent on petroleum based fuels.
- *Local agencies will want to increase transit services*—There are two reasons the local agencies will want to increase service. First, to remain viable, the growth in ridership must approach other elements of growth in the community. Examples of this would be growth in community population or extension of urban boundaries. Second, the changes in the social, economic, and demographic profiles that have previously been discussed will increase the demand for transit in some areas.
- *Governments will seek innovative ways to raise funds*—Simply put, because of the magnitude of current and future budget deficits, the federal government needs more money. At the same time there is a reluctance to significantly raise taxes. To a degree, the answer has been to adopt "revenue enhancement measures." This amounts to increasing low profile excise taxes and user fees and the closing of some tax loopholes. State and local governments are also experiencing financial pressures and are keenly aware of the political unpopularity of increasing traditional taxes. The current budgetary pressure being felt by all levels of government and the hesitancy to increase traditional taxes, suggests an increase in user fee or other hidden taxes.

There is some similarity between the conditions of today and those of the future, as expressed through these basic assumptions. Most people will continue to use the automobile as their primary mode of travel. However, higher costs for automobiles and gasoline, increased urban congestion, and an aging population could add a sizeable number to the transit-dependent market. The growth and successful expansion of the transit industry will be influenced by these factors, but eventual success may depend on the ability of the industry to develop new horizons and implement innovative ideas.

1.3 REPORT ORGANIZATION

This report is divided into three major sections. The first section, consisting of Chapters 1 and 2, discusses the existing problems facing public transportation. These two chapters serve as a point of departure for the rest of the study. The second section, Chapters 3 to 5, identifies key issues that are likely to be faced by the public transportation industry and the types of financial, institutional, and issues. The final section, Chapters 6 and 7, examines alternative scenarios for the development of public transportation and presents the recommendations of the task force.

CHAPTER 2

PUBLIC TRANSPORTATION IN THE 1980s

2.0 INTRODUCTION

As already noted in Chapter 1, public transportation in the U.S. is facing significant changes in the structure and characteristics of the industry. In order to assess these changes and associated trends, it is necessary to summarize the current status of the industry and the problems it faces. This chapter explores six key areas where problems exist, and changes are likely to occur; viz., the financial, institutional, operational, regulatory, organizational, and technological environments within which public transportation exists. This general approach is followed by more selective and substantive decisions in later chapters.

2.1 FINANCIAL ENVIRONMENT

Prior to 1961, federal support for public transportation in the U.S. was virtually nonexistent. This was really an indication of success—most of the systems were privately owned and solvent in the sense that system revenues exceeded system operating costs. However, this state of affairs soon changed as transit ridership and revenues began to decline dramatically. This trend first became apparent in the early 1950s and accelerated in the 1960s. Urban population and employment became more dispersed—and less transit-oriented—and the growth in automobile ownership and use accelerated the demise of the private transit companies.

The decline in private investment (and interest) in transit saw the modest beginnings of federal assistance. The federal government authorized an amount of $75 million in the 1961 Federal Housing Act for demonstration projects and capital improvements for transit. But it did not take long for federal involvement to increase substantially.

In 1964, Congress established the Urban Mass Transportation Administration (UMTA) and provided, for the first time, federal dollars for capital improvements, research and development, and other non-operating purposes. By the late 1970s, Congress had expanded the federal program to include the substitution of transit projects for highway projects, the provision of operating subsidies, and the expansion of capital and operating assistance to small urban and rural areas. The future federal role in public transportation, however, is uncertain.

The uncertain status is a reflection of changes in political emphasis. When the Reagan administration was elected in 1980, it proposed that governmental responsibilities in several major policy areas be realigned. Specifically, the administration sought to define the responsibility for programs jointly administered or financed by several levels of government and to transfer this responsibility for a number of federally financed programs that were actually non-federal in nature to the states and localities. With regard to public transportation, this meant the proposed elimination of all federal operating subsidies for transit, the reduction of other federal subsidies for transit, and the ultimate return of all transit programs back to the states. In addition, the administration also viewed the private sector as a catalyst and a contributor solving many problems that have been historically seen as public sector responsibilities.

This new philosophy has become apparent in a number of policy initiatives that were developed during the past four years. The Surface Transportation Assistance Act of 1982 eliminated the operating assistance program and replaced it with a block grant program that could be used for both capital and operating programs. However, the levels of operating subsidies were less than those allocated in 1982. In addition, UMTA issued a policy toward major capital investment that directed capital funds to those transit properties that have proven to be cost-effective from a ridership, travel time, and operating cost perspective, and to those which showed significant local financial support in the form of a stable and reliable source of funds to operate a system when it is completed. The policy suggests that financial support for a system, however cost-effective it may be, will not be the only consideration. There is little likelihood that major federal involvement will occur unless the operating side of the system's expense becomes the responsibility of those receiving the benefit of the project. This represents a significant change in philosophy.

It seems reasonable to assume that the federal government will continue to restrain domestic spending in order to reduce the budget deficit. Thus, it is not surprising to find that, in FY 85, the amount proposed for public transportation financing is below the FY 84 level, and represents a decrease in real dollars in public transportation expenditures. If there is eventual elimination of federal operating assistance and continued reduced funding of federal capital programs, many transit operators will be forced to increase fares and reduce service levels. This would be a repeat of what occurred in the late 1950s and early 1960s, when the transit systems ran into financial problems. Increased fares and service reductions caused reduced ridership and revenues, leading to another round of service cuts and/or fare in-

TABLE 2.1

TREND OF TRANSIT OPERATING EXPENSES (Millions)

	Local/State Operating Assist.	*Federal Operating Assist*	*Operating Revenue*	*TOTAL*
1979	$2054.6 (37%)	$ 855.8 (15%)	$2647.8 (48%)	$5558.2
1980	2611.2 (40%)	1093.9 (17%)	2805.1 (43%)	6519.2
1981	3225.7 (44%)	1095.1 (15%)	3045.2 (41%)	7366.0
1982	3582.0 (45%)	1005.4 (12%)	3456.9 (43%)	8044.3

creases. So the future seems clear—if this situation is to be avoided, both state and local governments, as well as the private sector, must become involved in public transportation.

There are signs that this transformation may already be occurring. As shown in Table 2.1, the state/local contribution to operating assistance increased steadily between 1979 and 1982. In 1982, some 35 states were providing some form of direct subsidies for capital or operating expenses to public transportation systems. A U.S. Conference of Mayors' survey in 1981 found that 82 of 132 responding cities contributed some local funds for their transit first quarter of 1983, state/local governments enacted eight tax levies for public transportation. It is thus evident that many states and cities are supporting their public transportation systems. However, there are several problems which suggest that this increased contribution might be insufficient to meet the need.

Capital Needs—According to the American Public Transit Association (APTA), almost $8 billion in capital improvements will be required for bus systems over the next five years, split almost equally between vehicles (49 percent) and facilities (51 percent). Vehicle needs by urbanized area are (persons):

Over 1,000,000 —78 percent of funds.
200,000–1,000,000—18 percent of funds.
50,000–200,000 —4 percent of funds.

About 82 percent of the reported bus needs for the next five years are directly associated with maintaining current service levels.

The financial estimates for rail service are even more dramatic. Over $28 billion will be needed between 1984 and 1988 for rail capital improvements in 35 transit systems serving 25 urbanized areas. Slightly more than half of the reported rail capital needs are associated with modernization of existing systems which will require over $15 billion of capital investment over the next five years. The majority of the modernization needs ($9.3 billion) are associated with heavy rail systems in eight urbanized areas. Another $5.1 billion is needed to modernize commuter rail services. In addition to the modernization needs, some $13.6 billion is considered necessary to support new rail system development.

During the three years (1984-1986) for which transit capital funds are authorized under the Surface Transportation Assistance Act for 1982, the combined bus and rail transit capital needs are more than double the authorized capital funding levels: $21 billion versus $9 billion. Even if the projected needs are on the high side, it seems apparent that a substantial gap will exist.

Rising Operating Deficits—Transit operating costs increased faster than the general inflation rate between 1970 and 1980, with the cost of transit services increasing from just $2 billion to slightly more than $6.5 billion. APTA has estimated that some $90 billion will be needed for operating expenditures over the next ten years, and any increase in costs due to inflation will obviously increase this amount. If farebox, state, and local contributions continue to reflect only current shares of operating costs, and there is a phase out of federal operating assistance, a $13 billion unfunded operating need will develop over the next ten years.

Competition for Tax Dollars—Approximately 45 percent of the total operating budget of public transportation systems is covered by state and local governments. These contributions will have to increase to cover the projected funding shortfalls. However, in attempting to gain this additional support, public transit agencies will be competing against other major state and local problems needing solutions. These include the requirement to balance budgets and the necessity to finance local and regional infrastructure improvements.

A 1981 survey found that the development of new local tax revenues was the number one issue facing communities during the next five years. General fund appropriations and fare increases were considered to be the most acceptable form of transit funding sources by voters.

Another problem that state and local governments will have in raising taxes to meet the financial shortfalls is that suburban jurisdictions have greater fiscal capacity than central cities, but expansion of the service area to develop a regionwide constituency is costly. Many new suburban routes or route extensions yield ridership and revenue per mile below systemwide averages. Transit systems, however, frequently serve geographic regions that extend across the political boundaries of two or more local jurisdictions. The benefits of transit do not fall neatly into political boundaries, no matter how hard politicians and bureaucrats may try to force them to. If such regional systems are to serve their regions effectively, they will have to be supported in part by funding mechanisms that successfully transcend individual political boundaries. It is this necessity that helped to spawn the state-supported systems in Baltimore and throughout New Jersey, and may have played a part in establishing the strong funding role of the Metropolitan Transportation Commission (MTC) in the San Francisco Bay Area.

It seems clear that the financial status of public transportation is of great interest and concern to all persons involved in the industry. Demand for additional funding is linked to uncertainty about the future, and although the roles of federal, state, and local governments are changing, their future is still unclear. However, the public transportation needs that have been identified indicate a significant role for each level of government in the years ahead.

The financial situation facing the public transportation industry is discussed at greater length in Chapter 3.

2.2 INSTITUTIONAL ENVIRONMENT

Innovative solutions to current problems will be a necessary criterion for survival in the industry. Development of such solutions may be difficult, however, because conducive institutional conditions and arrangements are lacking, or specific institutional impediments interfere in the process. Changes to such situations will be necessary before problems can be solved.

In this section, seven institutional issues are discussed:

- Political Leadership
- Travel Demand Management
- Private Sector Involvement
- Intergovernmental Conditions
- Investment Management
- Role of Labor
- Goals Articulation

Each one has an impact on the ultimate effectiveness of public transportation systems.

2.2.1 ***Political Leadership***—The apparent rigidity of current institutions often inhibits positive change, and strong leadership may be necessary to overcome this rigidity and introduce new ideas. This is seen in the respective roles of the public and private sectors. It has been suggested that owning and operating public transportation services, the public agency should concentrate on its strengths of information and organization, to become a true information broker, a technical and financial advisor, and an overseer of a number of service contracts. This will require tough new policy stands supporting efficient use of the public's investment in transportation infrastructure, rather than compounding current subsidy situations. Already, local government and transit agencies have begun to encourage private unsubsidized service and to contract for services whenever total subsidies can be reduced.

Political leadership must increasingly make choices. Limited public resources must be focused more carefully on specific objectives. If the public sector reduces its share of financial commitments and gains better control over costs and operations, greater financial contributions and/or service responsibility from others will also be required. Constrained resources in the 1980s calls for decisions which will effectively utilize available resources and place service where it can be provided most efficiently.

2.2.2 ***Demand Management***—Increased subsidies or service reductions and fare increases are not the only means of solving the financial problems of the industry. Another important opportunity is *demand management*, involving control of levels of demand and making more efficient use of existing facilities and services. Because demand management requires the use of disincentives to automobile use, consideration of this concept will require transit managers and policy officials to become more sensitive to solutions which are highly political, controversial, and socially unacceptable. The ability of the various participants to have such solutions accepted may determine the long-term viability of the public transportation industry, because it is clear that large numbers of people may be affected.

Private citizens may have to adjust to the fact that transportation will cost more. To reduce their costs, they may have to carpool or vanpool, combine trips, alternate driving with friends or neighbors, use taxis occasionally, or use public transit. Changing transportation behavior will not come easily.

2.2.3 ***Private Sector Involvement***—It has been suggested that the financial problems facing the operators of public transportation systems have increased the opportunities for private sector involvement. However, a

1983 conference on the future of public transportation recognized "... the continuing adversarial relationship with private providers and the failure to recognize the potential for reduction of overall subsidies that is possible through selective contracting for service and controlled competition ...." This suggests the need for a careful approach to this opportunity.

One of the major concerns which prevailed in the past was that private involvement in the transit market place was an "all-or-nothing" proposition. It is now becoming apparent that it can, and should be, a matter of degree in an openly competitive market. Undesirable impacts of private sector involvement may outweigh the complete loss of service due to rapidly increasing (public) costs.

Even with potential advantages of some private sector transit operations, it is difficult to make any meaningful statements about the benefits and costs of providing privately operated transit on an industrywide basis. There is so much variation between areas and there is no standardized approach to applying such service on a regional or national basis. The degree to which the private operators can address the funding shortfall is unknown but where substitution has occurred, some of the results have been favorable. Examples that come to mind include purchase-leaseback arrangements that provide tax benefits to the private sector, and which pass payments to the public operator. Private investment has also been secured through the sale of tax-exempt revenue anticipation notes. In both cases, the private sector support could be argued to be publicly financed, albeit indirectly, because it provides support to transit with dollars that have not been paid as taxes.

2.2.4 ***Intergovernmental Conditions***— This is an interesting area. The evolution occurring in regional intergovernmental relations during the early 1980s focused on the role, scope, and functionality of regional planning and service provision. During the 1970s, extensive consolidation and regionalization in transportation planning, transit provision, rideshare organization, and paratransit service were implemented in order to achieve economies of scale. However, the expected efficiencies and effectiveness of operations did not occur, in most instances, and the rationale for regionalism and consolidation is being questioned.

Because suburban and rural areas are the most difficult and most expensive to serve with conventional transit and to address with regional approaches to planning and implementation, a trend began emerging in the 1980s to consider alternative planning, coordination, and transit service approaches. The role of the Metropolitan Planning Organization (MPO) in facilitating and coordinating transportation improvements in the urbanized areas was a focal point in these discussions on alternative approaches.

The answers are not yet clear. The regional authorities should be able to take an effective role. The next few years will see a sorting out of the institutional perspective of the regional planning organization, its areawide leadership capacity, membership scope, planning responsibility, and implementation authority.

Some operators are also looking more closely at their immediate markets. They have found that services can be more closely tied to areas needing and paying for the service, and services can be tailored to individual, local area needs rather than being based on regional and national priorities. Regional providers are beginning to focus on what they do best (regional trunk routes, regional schedule coordination, public information, equipment procurement, marketing, and promotional activities). Other more localized services are beginning to emerge, such as separate municipal or rural service, jitneys and other private sector services, suburban and rural ridesharing programs, schedules tailored to local needs, etc. Since both regional and local perspectives are required to meet diverse urban, suburban and rural travel needs, continued reevaluation and adjustments in the roles of regional transit organizations, vis-a-vis local options and initiatives, are a healthy sign for the transit industry and the public interest.

2.2.5 ***Investment Management***—Public transportation capital investments have increased significantly during the past 15 years. While this trend ensured modern equipment and facilities it has created a major problem in maintenance. Most of these facilities and equipment are now reaching the point of substantial maintenance need, and the industry is becoming increasingly concerned about system preservation. In this context, availability of stable and reliable local funding sources will help to ensure adequate operating and maintenance activities, with enhanced system preservation. Similar criteria are being applied to rural services of all kinds. Vehicles are more likely to be awarded as replacements rather than expansions, maintenance is being emphasized, and operating subsidies are being pegged to costs of existing services: (new or expanded service operating costs may be borne entirely by the entity intiating the service).

Overall, maintenance capability is being stressed and ongoing maintenance procedures are being reevaluated, refined, and expanded. Other significant changes are being made in spare parts procurement and policies are shifting toward rehabilitation of vehicles and facilities as an alternative to replacement.

2.2.6 ***Role of Labor***—Labor costs account for about 70 percent of total operating expenses nationwide. In all, about 88 percent of U.S. transit systems are subject to union agreements specifying wage rates, benefits, conditions, and work rules. These agreements are a strong institutional factor in ensuring higher wages than might normally be expected, and in creating cost problems for many transit operators. However, in recent years, there have been several examples of concessions forced on labor and of state legislative action allowing the use of part-time labor.

One major case, decided in February 1984, upheld the authority of the federal Secretary of Labor to approve Section 13(c) arrangements that would allow federal funds to flow to the MARTA system in Atlanta—in spite of objections by the Amalgamated Transit Union (ATU), and opposition to the principle of part-time labor.

Other instances of the erosion of labor's traditional opposition to part-time operators have been noted on the public systems in Seattle, Washington, D.C., Miami, Minneapolis, Portland, and Orange County, California. Seattle has estimated that part-time help saved about 9 percent of its transit labor costs. Other states have passed legislation mandating that part-time labor be contractually available to transit as a precondtion to financial assistance. California's Senate Bill 620, for example, requires all operators receiving state assistance to have part-time labor provisions.

It should not be automatically assumed that the use of part-time labor is a panacea for financial problems. Other variables such as work rules and peak hour-to-base ratios must also be taken into account before part-time labor can be determined to be cost-saving.

2.2.7 *Goals Articulation*—There is a need for federal, state, and local governments to define specifically their interest in providing public transportation—and ensure that goals developed for this purpose are consistent. In addition, they should assess benefits that can be expected if the specified goals are achieved.

As an example, the federal government may want to encourage transit usage to reduce pollution and conserve energy; a state may want transit to reduce traffic congestion and encourage economic development; and a local government may want transit to provide service for the elderly, handicapped, and poor. Once these goals have been set, financial responsibility can then be determined commensurate with the desired objectives.

It is difficult to quantify the full range of transit benefits. Nonetheless, both the direct and indirect beneficiaries should be identified to provide the basis for assigning some degree of responsibility to pay for transit. The users' responsibility is relatively easy to manage by setting fare levels. Transit benefits also accrue to those who benefit indirectly, however, and the level of their participation in supporting transit is more difficult to establish. Indirect beneficiaries can participate in supporting transit through mechanisms such as purchase of service for employees, customers, or clients; by paying transit access fees; or by paying various taxes that support transit.

Unless public transit goals are clearly articulated, and all beneficiaries identified, actions may be taken that have the potential to undermine transit in the long-term. For example, in 1982, the general assembly of Maryland passed legislation requiring fares to support at least 50 percent of transit operating costs. This was primarily a political response to the dramatic increases in subsidy that had occurred in the large state-supported systems. Such action places a heavy burden on the users of transit without considering contributions that should be made by non-user beneficiaries.

2.3 OPERATIONAL ENVIRONMENT

One of the major challenges facing public transportation is the changing structure of urban areas. In this context, several points are relevant:

1. The form of cities will continue to evolve along lines broadly similar to those of the past 30 years. The downtown-oriented work trip market—historically the bread and but-

ter business of transit systems—will change with the changing fortunes of the individual downtown areas. In some cities there will be continued decline; in others, there may be substantial growth in potential patronage (Dallas and Houston are possible examples). The central city nonwork trip market will generally be stable or declining.

2. Cities/suburbs that are developing around beltways are presenting unique problems and opportunities for transit. Much of the heavy traffic on the beltways can be diverted to transit if correct action is taken. It will be a challenge to transit managers to identify the travel patterns of this market, both circumferential as well as radial, provide adequate levels of service, and keep operating deficits within reasonable limits.
3. In the next two decades, most growth will occur in the suburbs. Suburban person miles of travel are forecast to increase from 27 percent to 33 percent of total person miles of travel by 2000. In attempting to provide transit service in the suburbs, certain difficulties will be encountered. Suburban areas are comprised of many political jurisdictions making financing and service equity difficult to achieve.

   In addition, transit operators will find it difficult to provide adequate levels of service without increasing their operating deficits.
4. The transportation-disadvantaged markets may grow, but likely increases in the number of elderly or handicapped persons do not necessarily imply comparable increases in the supply of public transportation. The demand increases that do occur will often be in areas not easily served by, or in service forms not easily provided by, conventional transit. The poor may be increasingly concentrated within metropolitan areas, but like the elderly, will also be found in growing numbers in the suburbs as well as in central cities.

Already, some transit operators have begun to respond to this changing operational environment. The use of paratransit is a case in point. Paratransit responds to the the market demands of special uses such as elderly and handicapped persons and can provide more efficient service in low density areas.

Marketing existing service is beginning to change as well. Prior to the 1970s marketing activities were primarily limited to advertising and information aids, and transit managers tended to regard their customers as a homogenous group, with similar and predictable characteristics and needs. During the 1970s, the transit industry began to recognize the complexity of the transit market and that different people seek very different attributes from the transportation system, i.e., the peak hour commuter, shopper, student, and the transit dependent for general mobility purposes.

On the operations side, a desire to increase operating speeds has become an important operations objective. If a route can be covered in less time while carrying the same number of passengers, cost savings result. Several methods have been used from Transportation System Management alternatives such as special lanes and signal preemption, to purely operational alternatives such as express buses, techniques to speed passenger boarding and disembarking, and eliminating unproductive transit stops. Selective service cuts are also being made. When revenue cannot be generated in sufficient quantity, and options for increasing efficiency are being used to the maximum extent feasible, and deficits are still unacceptable, service reductions and elimination of unproductive routes are being implemented. Most operators try to cut service in ways that will have the least effect on ridership or will have the most positive fiscal impact, but this is currently a hit-or-miss proposition and the potential downward spiral of service reductions/fare increases/lost ridership/increasing subsidies must be avoided.

2.4 REGULATORY ENVIRONMENT

Perhaps the one aspect of public transportation most resistant to change and adaptation is the regulatory environment. By its very nature, the regulatory system is conservative, designed to legitimize and defend the practices of the past which have worked well or which were perceived to be in the best interests of the public. Yet if change is to occur, the impact of regulatory policy in the present must be carefully evaluated and new procedures developed when and where appropriate.

Four critical areas are relevant in a consideration of regulations—each of these is considered below.

2.4.1 ***Interstate Transportation***—Considerable progress has been made here. The late 1970s was the last period of uninterrupted regulation in interstate transportation. Airlines, railroads, trucking, and interstate bus were heavily regulated at the federal level. In the 1980s, gradual relaxation of regulation in all modes has occurred but the impacts of deregulation are still uncertain. Deregulation has opened new doors for competitive opportunity. On the other hand, competitive rate structures have driven many smaller operations and several large, but marginally solvent corporations, from the scene.

2.4.2 ***Intrastate Transportation***—This is still a rather conservative area. Within the framework of a national transportation policy geared to public ownership, intrastate regulations tended to reinforce the concepts of public monopoly and regional control in the 1970s. The impact of state regulatory agencies was generally restrictive, limiting the variety and number of transportation alternatives through entry and service expansion restrictions, licensing fees, insurance requirements, and exclusive franchises. The 1980s appear to be a time of cautious transition. Excessive costs and questionable levels of service have led to examination of service alternatives and regulatory change. At the state and local levels new policies are beginning to appear which encourage ridesharing services, increasing the opportunities for private sector participation in public transportation, and limit the restrictions on taxi and charter bus operations. All are indicators that the regulatory philosophy of the 1970s may be giving way to innovation and flexibility in an effort to meet local demands for service.

2.4.3 ***Labor Relations***—This has been an area of important regulation. Developed in an era of public monopoly and increasing federal subsidy, several of the most important labor protection laws and their attendant regulations have promoted disproportionately high costs for transportation services. Labor was, and continues to be, protected from competition by such laws as Davis-Bacon, Section 13(c) of the UMT Act, and the Buy America provisions. The demands of labor were further supported by the creation of public monopolies and federal subsidies which provided the funding to pay for labor and which restricted the pool of competitive workers. Thus, the transportation industry experienced unusually high costs of labor, the single most important factor in the steady escalation of operating deficits. Although many voices were heard in the 1980s calling for regulatory reform of labor laws, there is no apparent movement to indicate that change has occurred or is likely to occur in the near future. Thus, it appears that the costly labor patterns of the past will continue.

2.4.4 ***Equal Opportunity and Minority Business Practices***—National policy has established that historical inequities in employment opportunities shall be corrected. Public transportation regulations have reflected an increasing commitment on the part of the federal government to provide opportunities for minority and disadvantaged business participation in the manufacture of capital equipment, in the provision of support services, and in direct employment opportunities within the transportation industry. These commitments in turn have been passed on to state and local recipients of federal funds. The Equal Employment Opportunity Program appears to have reached a maturity that suggests stability. The Disadvantaged Business Enterprise Program is still in the emergent stage of development. Both serve national goals which extend beyond the field of transportation yet directly affect the increasing costs of providing public transportation.

Nevertheless, these increased costs must be weight against the total economic cost-benefit of the programs, the social rewards and the moral value. Begun in the late 1960s and continued in the 1970s, the regulatory manifestations of social justice programs are still being developed today.

The deregulation debate is not yet finished, but significant changes have been made during the past three years. The extent to which further changes will be made will depend on the relative political strengths of the involved parties.

2.5 ORGANIZATIONAL ENVIRONMENT

The organizational structure of a public transportation agency may give some indication of the role and efficiency of that particular body. Three types of public transportation organizations have been identified in a recent report:

1. The "full service" transit authority which has funding and implementation powers to provide both conventional and non-conventional transit services within a single organization.
2. The areawide transit funding agency which has one organization for transit policy making and funding and another for managing and operating actual transit services.
3. The multiple transit service organization which allows local governments, independent ridesharing agencies, taxis, and social service agencies to operate in competition with each other.

It has been suggested that combining conventional and non-conventional transit services within a single agency would provide needed coordination and adequate service levels. But the contrary viewpoint suggests that a single agency would not be as cost-effective as a situation where independent groups and organizations are in competition.

Another problem associated with the organizational structure is the need to attract, develop, and retain a competent work force. There is a lack of training and professional development programs and many of the most capable people choose other career opportunities.

There are four crucial areas where a skilled and capable staff, well-structured and organized, can make significant differences to transit operations. A skilled and capable staff can:

- balance the social objectives of serving the community according to local needs and desires against operational cost-effective objectives.
- define and analyze markets and perform a variety of marketing activities.
- be innovative in overcoming traditional impediments in providing new forms of service in different markets.
- develop criteria and standards for service improvements of service cutbacks on an economic basis and relate these to public policy objectives.

Further discussion of the issues relating to the organizational environment are presented in Chapter 4.

2.6 TECHNOLOGICAL ENVIRONMENT

The transit industry seems to exist in a rather uncertain technological environment and one in which change is modest. In 1982, the average age of the nation's bus and rail car fleet was 9.4 and 19.4 years respectively, suggesting that technology change and advancement should be important factors. However, technological advances have been less than satisfactory.

There seem to be numerous problems associated with designing, purchasing, operating, and maintaining transit equipment. Operational problems associated with bus air conditioning systems are leaky refrigerant lines and compressor seals, electrical system failures, compressor and compressor clutch failures, and high fuel consumption. These problems not only contribute to high maintenance costs, but also result in costly equipment downtime. Recognizing these problems UMTA has recently funded five projects, ranging from the development of new air conditioning systems through the development of more reliable equipment.

Problems have also emerged with transmission systems for buses. The V730 transmission, which is used in most full size transit buses has historically been unreliable. Various problems commonly encountered in the use of these transmissions include fluid leaks, material failures, parts/components failures, and excessive maintenance costs. The manufacturer is currently making a series of product changes to improve the fuel economy and reliability of the engines. UMTA is monitoring 20 test buses and will publish a report on the results in late 1984.

The operational problems with fareboxes are well known. UMTA has several fare collection projects underway that will (hopefully) assist transit operators to overcome these problems.

Another area of concern is fuel economy. In spring, 1983, UMTA sponsored fuel consumption tests for a number of 40-foot transit buses. The consumption figures range from 3.75 mpg to 4.19 mpg suggesting there is a need for considerable work in this area in order to make buses more economical.

Further discussion of technology issues is presented in Chapter 5. It might be observed, however, that the industry seems to be having difficulty in obtaining maximum utilization of existing technology. This suggests the development of new technology may be premature unless the current situation is rectified.

2.7 SMALL URBAN/RURAL AREA PUBLIC TRANSPORTATION PROBLEMS

The recent "Survey of State Involvement in Public Transportation" by AASHTO found that of the almost $9 billion expended on public transportation operating costs in urbanized areas in FY 1984, approximately 10 percent (some $900 million) was subsidized by the federal government and 22 percent (almost $2 billion) by state assistance. Non-urbanized areas expended $166 million on operating costs in FY 1984 with the federal share being $50 million or 30 percent and states assisting in the amount of $37 million or 22 percent.

It is costing a lot to provide such services but even then the coverage is far from optimum. A recent analysis showed that:

- No more that 3 percent of federal transportation assistance goes to non-metropolitan areas where about fifty-six million people live—this is 25 percent of the U.S. population.
- There are just under two public transportation vehicles for every 10,000 persons in the non-metro areas.
- Only 340 of the nation's 4,600 towns with populations between 5,000 and 50,000 had public transit systems in 1980.
- Average non-metro household residents traveled some 37 percent more miles to work and 54 percent more miles a year in trips for

shopping, health care, and other family business, than did residents of the average metro household.

- Eighty-two percent of non-metro workers in the 1980 Census reported that public transportation was not available for them to use.

There are other facts in the report that support and expand the information listed above. The evidence is overwhelming that the residents of rural and small urban areas are not very well served by public transportation.

It will be costly to provide the public transportation service necessary to address these mobility problems. A characteristic common to all nonmetropolitan areas is that their populations are low density or dispersed, requiring long travel distances and subsequent high costs. Whether the service provided is community-wide fixed route, individualized demand responsive, or some combination of these, substantial subsidies will be required. Convincing the public and elected officials of the need to provide mobility and finance such transportation service will be difficult and compounded by the federal government's proposal to discontinue operating subsidies.

2.8 SUMMARY

The major conclusion that emerges from a review of public transportation in the 1980s is that the industry is in a period of significant change. Since the 1960s, public transportation service has shifted from a private sector venture carrying paying customers for a profit, to what is virtually a public service. In this transition, the goals of public transit have expanded greatly to deal with a multitude of social and environmental problems such as energy conservation, air quality, mobility for the poor, handicapped, and elderly. These newer goals all tended to expand transit services, and result in rapidly increasing public expenditures and subsidies. Public officials are now reevaluating and questioning these goals and the associated costs. More fundamentally, they are attempting to sort out whether the goals were legitimate expressions of explicitly developed policies or rationalizations for service expansion and increased funding requests. Perhaps the most significant change now occurring is that the industry is beginning to question the traditional methods of providing conventional transit service which have dominated the industry for a number of years.

In order to suggest where the industry might move, it is appropriate to summarize where it now stands. This has been done in the following paragraphs.

- *Organizational responsibilities* are varied and shifting; roles are still unsettled and responsibilities uncertain. Responsibilities of various governmental levels have not bee sorted out and agreed upon. On the local level, regional providers are being reexamined and local service options explored. In some cases, transit agencies are politically powerful, autonomous organizations with the power to tax to support operations; others represent a loose consortium of governments or providers with complete reliance for funding on others who have varying levels of interest in the survival of the organization.
- *Technology* has not been changing rapidly enough to cope with the requirements of the industry, so that the state-of-the-art is likely to remain relatively constant through a period of rapid change in all other areas of transit. Research and development has lagged behind industry needs and has not been responsive to likely changes.
- The industry is guided by an almost infinite range of regulatory arrangements and requirements which vary considerably from state to state and city to city. At the same time, many transportation providers are operating under new and emerging federal deregulation policies, the impacts of which are still not known.
- The inefficient and ineffective mix of *service options and operational arrangements* which developed during the 1970s is today being blamed in large part of the productivity shortfalls now being recognized. This is compounded by the fact that the future growth market for total travel is in the suburban areas, and this is the least cost-effective market for conventional public transit.
- Reexamination is occurring at the *cost of services* and the escalating financial burdens being placed on responsible jurisdictions. Local, state and federal financial responsibilities, particularly for operating expenses, have not been clearly identified. The "ability to pay" is emerging as a major criterion in evaluating operational priorities, and federal policy toward major capital investment in large urban areas will focus on local commitment to the project. Financial responsibility to, and transit needs of, rural America have largely been ignored and no policies have emerged in the early 1980s to address this major segment of the public transportation sector.
- The industry today is influenced and directed by a heterogeneous mix of different and conflicting *institutional arrangements* and issues. In order to cope with the organizational and operational transformations which took place in the 1970s, an increasingly sophisticated institutional process evolved. The evolution is continuing, but the 1980s seem to be bringing about a return to simplicity; a less pre-

scriptive and less standardized process. The 1980s have been characterized by a sorting out of key issues and developing a range of potential solutions.

The fact that many people are aware of the problems facing the industry and are concerned about them gives cause for optimism. The current difficulties may be the symptoms of the birth of new ideas and of a new wisdom which will result in the revitalization of public transit. The transition that occurs in the last half of the 1980s will undoubtedly continue into the next decade, and beyond, and provide the framework for positive changes in the public transportation industry.

CHAPTER 3

FINANCIAL NEEDS OF THE TRANSIT INDUSTRY

3.0 INTRODUCTION

Funding future transit capital and operating costs is the most important issue facing the public transportation industry today. Reduction and possible elimination of federal operating assistance, fiscal problems at the state and local level, and the fear of ridership losses after fare increases all contribute to an uncertain future for transit financing. Lack of definitive (and consistent) federal, state or local goals and policies for transit increases this uncertainty.

This chapter examines current financing and transit operating expenses and attempts to show how continuation and current conditions will soon result in large shortfalls. The capital needs of public transportation are also addressed and attention is directed to existing financing sources and some possible new or innovative funding mechanism. This latter activity is also discussed in Chapter 6, which deals with future scenarios.

3.1 FINANCING TRANSIT OPERATING COSTS

It seems quite clear that the major problem annually facing most transit managers and administrators is the financing of operating costs. The declining share of fare box coverage and inflation-sensitive expenses, many of which (e.g., fuel, parts, and insurance) are not directly under the control of transit managers, coupled with the changing roles of the various levels of government, all contribute to the great annual uncertainty in developing a balanced transit budget. The overreliance on a particular governmental funding source may exacerbate the financing dilemma for certain transit systems.

In Figure 3.1, total transit operating revenues for the period 1975 to 1982 have been shown. These figures include federal, state and local participation. The percentage of cost covered by each of these categories is shown in Figure 3.2. During this period, operating revenue declined (nationally) from 59 percent of cost coverage to 43 percent as fares rose less than inflation. Federal aid rose from 8.7 percent of costs in 1975 to 16.8 percent in 1980. However, reductions in federal operating assistance reduced the share of cost coverage to 12.5 percent in 1982, and this will decline even further under the operating levels mandated in the Surface Transportation Assistance Act of 1982. Thus, if federal appropriations for operating assistance remain constant as authorized and costs increase just at the rate of inflation (assumed at 5 percent per year), then the federal share will be reduced to 8 percent by 1987. As these changes in federal support occurred, state and local assistance increased to cover the difference between revenues and operating costs. In fact, state and local aid in 1981 increased to levels above those covered by user revenues.

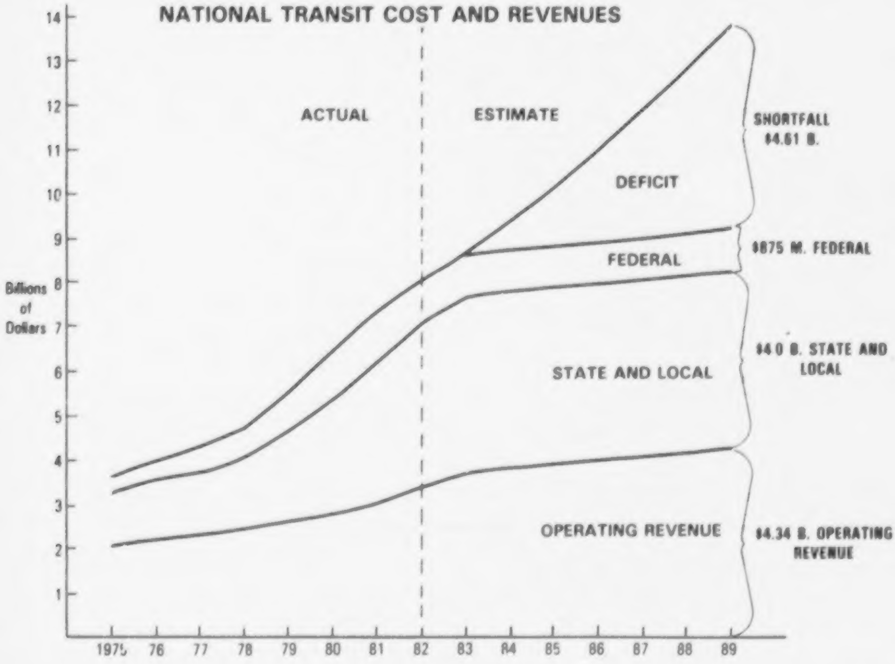
The fact that operating costs over this period exceeded inflation and operating revenues increased less than inflation has been well documented. Even adjusting for increases in transit service, operating cost per vehicle mile doubled from 1975 to 1982. Fare increases in 1981 and 1982 allowed user revenues to keep pace with increases in operating costs.

Of particular importance in this assessment of transit finance is the situation faced by smaller cities. Smaller urbanized areas rely less on user revenues and more on federal aid than do larger systems. This results in greater concern with the possible phase-out of federal operating aid in medium and small areas where federal aid currently covers nearly one-fourth of operating expenses. In general, smaller cities rely more on governmental subsidies than on fares to fund operating expenses. Operating revenues cover less than 30 percent of cost in small urbanized areas while multimodal systems (in the larger cities) cover nearly 50 percent from user revenues. Smaller cities also appear to rely more on state assistance (as a percentage of cost) than do larger systems.

These conclusions have various implications on transit financing policies in different urbanized area size groups. Smaller city transit systems are deeply concerned with the reduction and possible elimination of federal operating aid. The somewhat smaller share of cost covered by user revenues and local aid in these areas places greater pressure on state assistance as a means of filling operating shortfalls. It is quite probable that the elimination of federal aid to these systems would cause larger increases in fares, substantial reductions in service, and greater demand for local and state assistance, or in extreme cases, lead to cessation of transit service altogether.

Larger cities generally do not rely as heavily on federal subsidies on a percentage basis. However, the magnitude of the federal component would, if eliminated, necessitate a large increase in user or local/state government funding. The large, recent increases in state and local subsidies are not likely to be continued into the future due to increasing concern with the already high level of taxation in most large cities and competing interest for government funds.

FIGURE 3-1



The data presented in Figure 3.1 were used as the basis for the estimating the total operating deficit in 1989. In addition, the following assumptions were made:

- Current transit operating costs will increase at 8 percent a year.
- Operating revenues will increase at 2.5 percent a year as a function of ridership increases and stable fares.
- Federal operating assistance will remain at $875 million—the 1984 level.
- State and local aid will grow to $4.0 billion in 1984 and remain constant thereafter.

These assumptions would produce a $1.3 billion deficit in 1985 and a $4.6 billion operating shortfall by 1989. If transit costs increase annually by 10 percent, rather than 8 percent, the deficit will increase by a further $2 billion.

Assessing this future deficit in relation to the current shares of cost covered by each financing source allows each source to be charged with a portion of the funding shortfall. The proportion of deficit allocated to each funding source, due to that source not increasing at the same rate as operating expenses, is as follows:

	Shortfall (billions)	*Percent*
Operating Revenue	$1.61	35
Federal	0.85	18
State and Local	2.15	47
	$4.61	100

However, to eliminate this 1989 shortfall, each source would have to increase as follows above its 1982 level:

	1982 Level (billions)	*Increase* (billions)	Percent Increase *by 1989*
Operating Revenue	$3.457	$1.61	47
Federal	1.005	0.85	85
State and Local	3.582	2.15	60

If state and local aid increased at inflation rates federal aid remained at 1984 levels, and operating revenue increased 8 percent per year (the average over the last five years), the remaining deficit would be nearly $1 billion. State and local aid would have to increase by over 10 percent annually over this period rather than 8 percent to

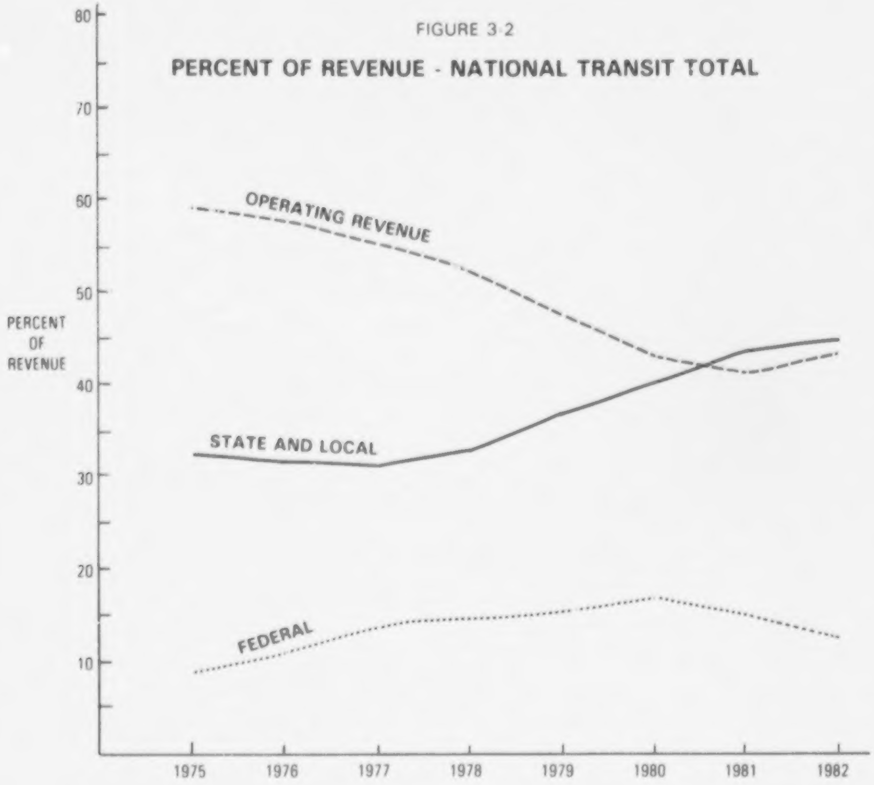


FIGURE 3-2

PERCENT OF REVENUE - NATIONAL TRANSIT TOTAL

make up this shortfall, doubling the 1982 level of funding of $3.6 billion. The elimination of federal operating aid would place further pressure on increasing fares faster than inflation and also increasing state and local subsidies.

These are rather dramatic figures. They suggest that the public transportation industry is in severe financial difficulties, at least as far as operating costs and revenues are concerned. The purpose of this overall study by AASHTO is highlighted by the data presented above. Future directions for public transportation in the U.S. are obviously going to be heavily influenced by the availability of finance. This will come as no surprise to anybody involved, even remotely, in the industry.

3.2 FINANCING CAPITAL NEEDS

The situation regarding operating revenues and operating costs is obviously somewhat disturbing—what is the position with capital funds?

The capital needs of the transit industry have grown considerably as transit administrators and funding agencies recognized the need to rehabilitate and modernize the large government investment in transit's infrastructure. Aging facilities, track, signal systems and vehicles require replacement or upgrading to continue the provision of safe and efficient transit service in areas with extensive existing ridership. The situation parallels the increased funding needed to rehabilitate and maintain the nation's public highway systems. In addition to this requirement to upgrade and maintain existing transit systems, fast growing cities which rely primarily on the automobile are experiencing overcrowded and congested transportation conditions. Many of these cities will require major capital investments in fixed guideway transit systems to relieve overcrowding and improve travel to downtown areas.

The federal government has committed over $30 billion to transit capital projects nationwide since the Urban Mass Transportation Act was passed in 1964. From 1980 to 1982, project approvals averaged $2.8 billion annually. Although these levels have grown considerably since the early 1970s, current indications are that the need to rebuild transit's infrastructure and construct a limited number of new systems in growing cities far outstrip conventional capital financing sources. Actual UMTA capital grants declined 7 percent from 1983 to 1984 and will decline another 5 percent without significant increases in gas tax authority or Section 9 formula funding. Estimates of national transit capital needs have been prepared recently by the American Public Transit Association (APTA) and the Congressional Budget Office (CBO). As is evidenced from Table 3.1 both these recent estimates surpass currently available federal capital authorization levels. Even if the lower of the two estimates is used, the position is rather gloomy.

The capital needs of transit systems differ considerably by urbanized area size and geographic location. Since a large proportion of the capital need is to modernize and rehabilitate older transit systems, much of the financing need is in larger urbanized areas, particularly in the northeast. Rail systems in these cities are estimated to need 40 percent of available annual capital finding over the next five years for rehabilitation and modernization. The construction of new systems in growing cities in the south and west and extensions to existing systems built since 1975 are expected to require over $11 billion over the next five years or 30 percent of the estimated total transit capital requirement.

In recent years, the increased capital need of the transit industry has exceeded the federal capital program including the local share requirement, especially in older transit intensive cities and cities building new rail systems. As a result, some states and localities (including private sources) have increased their capital contribution above the mandated local project share.

The lack of growth in federal capital funding coupled with increasing transit capital requirements place further pressure on development of new and larger (dollarwise) capital financing mechanisms. Involvement of transit beneficiaries (e.g., private business in downtown areas) would appear to be essential in order to maintain and improve current transit service in major urban areas.

3.3 FINANCING PUBLIC TRANSPORTATION

Due in large measure to the historical matching grant-in-aid principles embodied in federal legislation, transit financial assistance has taken the form of a partnership arrangement among federal and state and/or local governments. Under this arrangement considerable growth has occurred in government funding during the past decade. Due to a significant financial contribution and its involvement in policy setting and regulation, the federal government has greatly influenced both the direction and the development of public transit. In many cases, the availability of hundreds of millions of dollars at the federal level has proven to be a strong incentive for local and state govern

TABLE 3.1

ESTIMATED ANNUAL CAPITAL NEEDS OVER THE NEXT FIVE YEARS
(MILLIONS OF DOLLARS)

	APTA (1984)	*CBO (1982)*
Bus		
Vehicle Rehab. & Replacement	759	610
Facilities	786	500
Rail		
Modernization and Vehicle Replacement	3,018	2,200
Extensions of Existing Systems	757	1,191
New Systems	1,972	1,012
Total	7,292	5,513
Estimated Annual UMTA Authorizations including Local Project Share	4,274	4,274
Annual Shortfall	3,018	1,239

Source: APTA Capital Needs Survey 1984-1988, CBO, *Public Works Infrastructure*

TABLE 3.2

U.S. TRANSIT FUNDING SOURCES (FY 83-84)

Number of States Providing	*General Fund*	*Sales Tax*	*Dedicated*			
			Fuels Tax	*Commuter Tax*	*Bond*	*Other*
Operating Asst	21	5	10			9
Capital	18	3	8	1	11	6

Source: 1983 AASHTO Survey of State Involvement in Public Transportation

ments to provide the match in order to qualify for these funds.

For fiscal year 1982-83, the U.S. DOT transit budget totaled approximately $4.5 billion, of which $3.6 billion was available for capital and operating assistance grants. The bulk of these funds are made available to transit systems and state DOTs under Sections 3, 9, and 18 of the Urban Mass Transportation Act of 1964, as amended. The source of these funds is the general revenue budget annually adopted by Congress, and the Highway Trust Fund.

As shown in Table 3.2 there is a wide range of revenue sources used, at the state level, to support transit capital and operating needs.

Local tax sources are often controlled or preempted by state taxes or legislation. As shown above, state transit funds most often are derived from the general fund, but they may be generated by sales or gasoline taxes, which either eliminates or severely restricts this option at the local level.

The opportunity exists for transit agencies to be more aggressive and innovative in pursuing new or improved funding opportunities to be completely effective, however, they must assess and select those financing options that are best suited to, and most likely to be accomplished in meeting, predetermined objectives.

An excellent summary of various creative funding mechanisms may be found in the U.S. DOT report entitled—"A Guide to Innovative Financing Mechanisms for Mass Transportation," December 1982. Figure 3-3 summarizes some of this information, and lists various alternatives that are best suited to achieving specific transit financing objectives. The objectives have been grouped by the following financial use categories:

Support Facility Development: Mechanisms to generate additional revenue or provide access to capital to build facilities.

Support Operating Requirement: Mechanisms to generate additional revenue to help offset operating expenses.

Replace Capital Need/Replace Operating Requirement: Mechanisms to replace a service demand that otherwise would be undertaken directly by the transit entity.

Support Equipment Purchase: Mechanisms to provide a direct revenue stream or debt service to help support equipment purchases.

Replace Equipment Purchase: Mechanisms such as contracted service with private providers to reduce the need for purchasing capital equipment by the public entity.

Transfer of Capital Cost to Future Operating/Maintenance: Mechanisms to effectively transfer a direct and immediate capital cost requirement into a long-term operating cost.

Transfer of Operating/Maintenance to Future Capital Cost: Mechanisms to transfer ongoing operating costs into lump sum capital obligations or to defer capital expenditures to a future time.

In many of the cases cited in this report, successful implementation of the innovative financial arrangements require a great deal of time and effort on behalf of the staff of the transit agencies. These special efforts would be over and above the existing workload associated with managing the transit system and obtaining capital and operating assistance through conventional grant-in-aid programs. Unless direct outside assistance is available, it is unlikely that medium- and small-sized transit systems would be capable of implementing most of these options. Thus, large transit systems or perhaps state sponsored consortiums may be in the best position to implement these options.

3.3.1 ***Financing Mechanisms***—Some reference has been made to funding sources and general financing mechanisms, particularly those listed by U.S. DOT. It is now appropriate to address this topic in greater detail and look at potential new sources. In the past, local operating support has most frequently been provided from the general fund of the city or county government. A variety of the sources of local transit funding is listed below.

FIGURE 3-3

USE OF FINANCIAL MECHANISMS FOR TRANSIT AGENCY OBJECTIVES

Mechanisms	*Supports Facilities Development*	*Supports Operating Requirement*	*Replaces Capital Need*	*Replaces Operating Requirement*	*Supports Transit Equipment Purchase*	*Replaces Equipment Purchase*	*Transfers Capital to Future O&M*	*Transfers O&M to Future Capital*
I. *Assessments*								
A. Special Benefits Assessments	X	X						
B. Private Negotiated Investments			X					
C. Tax Increment Financing	X	X	X	X				
D. Transit Impact Requirements	X	X			X	X		
II. *Taxes & User Charges*								
E. Corporate Payroll Tax	X	X			X			
F. Employee Income Tax	X	X			X			
G. Peak Hour Surcharge		X						
III. *Use of Property & Property Rights*								
H. Land Banking	X							
I. Leasing/Selling Development Rights	X	X			X			
J. Leasing/Selling Existing Facilities								
IV. *Issuance of Debt*								
K. Certificates of Participation	X				X		X	
L. Interest Arbitrage	X				X			
M. Lease Purchase Agreements	X				X		X	
N. Safe Harbor Leasing					X		X	
O. Vendor Financing	X				X		X	
P. Zero Coupon Bonds	X				X			X
V. *Contracted Services*								
Q. Taxis			X	X		X	X	
R. Transit Service Maintenance/Management			X			X	X	
S. Vanpooling				X		X	X	
VI. *Voluntary Participation Programs*								
T. Donations for Capital Improvements	X	X				X		
U. Employer Sponsored Pass Program		X						
V. Lottery	X	X				X		
W. Private Provisions Services			X	X		X		

- Property tax
- Motor vehicle tax
- Sales and use tax
- Gasoline sales tax
- Cigarette tax
- Business license tax
- Income tax
- Payroll or wage tax
- Special transit district tax
- Employment tax
- Public utilities tax

All things considered, these funding mechanisms have generally achieved their objectives—to provide financial means of enabling transit systems to maintain and improve services for public benefit. However, there is a serious question as to the future viability of these funding arrangements. With the continued anticipated growth in operating deficits (even with fare increases, reductions in expenses, and improved performance), transit systems through out the United States will be forever dependent upon steadily increasing subsidies under these present funding mechanisms. Conventional changes in labor practices, fare structure, routing and scheduling, even coupled with the application of advanced technology, will help alleviate the pressure on rising subsidy requirement, but these actions alone will not solve the problem. Innovative approaches to address these serious transit funding issues are needed if the transit improvements made over the past decade are to be maintained and enhanced. This suggests that more attention must be paid to new and innovative funding mechanisms for public transportation.

In dealing with these serious funding issues, a number of transit agencies, in cooperation with other organizations such as local and state governments, private industry and financial institutions, have devised more innovative financial mechanisms than have previously been attempted. The potential financial impact of each individual mechanism is dependent upon the transit goals to be fullfilled, the transit entity's size and structure, its institutional relationships, and the extent of local financial capabilities. A more financially independent and secure entity will likely enjoy a greater range of innovative financial flexibility, while a more dependent transit agency might have greater success from using mechanisms which increase revenues and reduce costs of providing service. Also affecting the extent to which such measures are carried out is a degree of private and public receptivity and leadership. Regions vary significantly in the strength of its private sector, in the support given by elected officials, and in the overall interest in transit.

One of the studies regarding development of future funding mechanisms is that produced by the American Public Works Association (APWA). In their booklet, **Paying for Transportation at the Local Level**, the APWA analyzes 17 mechanisms for raising local transportation dollars. Although the mechanisms relate to total transportation needs, most of them are directly relevant for transit funding.

In addition to highlighting local opportunities, the booklet reviews funding sources and amounts at the federal, state and local level of government, presents current financing trends on a national level, and concludes with guidelines for mounting a local campaign for raising revenue. The 17 mechanisms are summarized below.

1. In 1975 local governments received 82 percent of their highway-related tax revenue from **property taxes.** However, new increases to local property taxes are proving difficult to achieve among the electorate. Indeed some states (California and Massachusetts) have achieved limits on property tax rates. Further, the equity of property taxes is being widely questioned due to imperfect assessment procedures that can lead to under- or over-assessments. Given these problems, it appears that local officials will need to look beyond property taxes to finance programs. And the objections to using property taxes for transit may be quite strong in some areas. Many property owners will argue that they use highways but not the transit system.
2. A traditional state revenue source, **motor fuel taxes** (a direct user-pay tax measure), should be given careful consideration by local officials. A motor fuel tax can raise large sums of money with low administrative costs, especially if the state will collect the tax and return local revenues to the local government. In the San Francisco area it was estimated that a 2 percent per gallon tax would raise about $52 million per year. More generally, FHWA estimates that if an urban area consumes about 400 gallons of fuel per person per year, a city with a 100,000 population could raise $400,000 per year with a one-cent gasoline tax.

   There is a danger here of killing the goose that laid the golden eggs—motor fuel taxes have been steadily increased in most states in the past few years. And it is difficult to overcome legal restrictions on the use of such revenues for transit purposes.

3. Most local governments can levy **motor vehicle fees and taxes,** and their potential for raising revenue is assessed as quite high. Further, the relationship between the payer and the user of the roads is clear, making them more politically acceptable. A problem with fees assessed on the sale of vehicles, however, is that if not carefully applied, people could be encouraged to purchase goods in another jurisdiction where the tax is not present or not as high. This is a promising area and it has already been pointed out that states such as Washington are taking advantage of this opportunity, and making the funds available for transit.
4. **Parking taxes** also have a clear linkage to the road user, and if the revenue is dedicated to transit use, they can often be justified as an inducement to use public transportation. Such taxes, however, are not major sources of revenue and can have the effect of discouraging people from coming into the downtown area at all. It is interesting to note that the parking industry in San Francisco reported a 31 percent decline in business as a result of a new parking tax.
5. **Tolls** are currently enjoying renewed interest among cities and states as a method of financing road maintenance and expansion. Charleston, South Carolina, for example, has several bridges needing improvement and is considering issuing bonds to finance the improvements. One method considered for repaying those bonds has been tolls. In several other cities, tolls that once paid for initial capital investments of bridges and tunnels are now also helping finance the facility's maintenance and/or local transit projects. The use of highway or bridge tolls for public transit can be justified in that highway construction and maintenance costs would be saved through increased use of public transit. Precedents for this type of behavior have already been set in the U.S.
6. Twenty-four states allow local governments to levy a local **sales tax** that can be combined with the state tax and collected by the state government for local use. Sales taxes are fairly well accepted by the public and are capable of producing large amounts of revenue. In 1982, Atlanta estimated its revenue from a 1 percent sales tax to be $110 million. A similar tax in Houston is expected to accrue more than $1.5 billion by 1988. Sales taxes do have the disadvantage of being income regressive and thus staple items such as food and drugs are often exempted. Further, in an urbanized area with many jurisdictions, such a tax is better implemented at a regional level. There is a limit to how far sales taxes can be raised, but this is a fertile area for generating revenue for transit support. Many states already know this, and it can be expected that sales taxes will continue to be a popular way of raising revenue.
7. Some form of **income tax** is imposed by 40 states and by more than 4,000 local governments in 11 states where state legislation allows them to do so. Such taxes produce considerable revenue, but surveys taken in 1981, 1982, and 1983 by the Advisory Council on Intergovernmental Relations indicate that income taxes are the "most disapproved of" tax in the eyes of the general public. It seems that the situation regarding income taxes is quite clear: if residents of an area want certain services badly enough, they may be prepared to pay for them through income taxes. But in ten states in the U.S. this point has obviously not yet been reached.
8. **Bonds** are a good source of obtaining short-term revenue in exchange for incurring long-term debt. Since they are a one-time source of new revenue that must be repaid, they are best used for one-time capital expenses where there is some new tax that can be pledged for repayment. High interest rates and market fluctuations have made this traditionally popular source of funding less attractive in recent years. Brighton, Colorado (pop. 14,000) has circumvented the bond market by financing small street improvement projects with the cooperation of local banks rather than through the traditional method of selling bonds. Local bankers have agreed to purchase all of the city's improvement bonds. This local financing has reduced the city's borrowing costs and has saved time in obtaining low-cost borrowing for its small capital improvement projects. It

does appear that bond financing does provide the opportunity for innovative mechanisms to raise revenues for transit purposes.

9. **Impact taxes** are mechanisms through which a private developer pays a local jurisdiction for abatement of impacts (traffic) of the proposed development. That is, if a developer wishes to construct a major office complex, provision may have to be made for both the widening of surrounding streets to accommodate traffic and the maintenance of those streets in the future. Special benefit assessments are charges placed on property that enjoys the benefit of an improved facility. Assessments are generally based on front footage, lot area, or appraisal value. The Nicollet Mall in Minneapolis and the State Street Mall in Madison, Wisconsin, were both financed by special assessments.

   A variation of the special assessments program is a sharing arrangement program where the local government and private property owners share the cost of road improvements or repairs. Evanston, Illinois, is one of many localities that, since 1978, has issued special assessments to private property owners for paving gravel roads. In public transit, this approach could be extended to cover the *value added* concept. Variations on impact taxes and value added are possible, based on particular conditions of any development.

10. **Utility status** has long been accepted for water and sewer systems and more recently for stormwater management, but a street utility is a new concept that would directly relate the use of roads to costs of maintaining them. Fees could be based on the estimated traffic generation (available from a number of standard tables) of adjoining land use. The same concept could be applied to public transportation operations, and it is feasible to develop a joint highway-transit utility status approach.

11. Although he is not aware of any jurisdictions that currently impose such a fee, Granville Bowman, Director of Public Works in Clark County, Nevada, suggests a user fee for off-premise **billboard advertising.** Since such advertising would be useless without streets and highways, advertisers would be charged a user fee. The same concept could be applied to transit operations, but revenue generated by this technique would probably not be large.

12. Many are now accustomed to seeing advertising on buses, but some may soon see **advertisements on other public facilities** as well. St. Louis, Missouri, for example, is among several cities that rent space on parking meters. Under the agreement, a private company is given the right to lease advertising space on a specified number of meters. The company pays a flat fee per meter to the city whether or not it is able to arrange for the advertisements. St. Louis estimates that it will receive $250,000 per year from the arrangement. Again, this is not a large amount of revenue, but it is indicative of what can be done when innovative thinking is directed towards the problem.

13. In fiscal year 1983, more than $20 million will be placed in the Arizona Local Transportation Assistance Fund. This money comes from the proceeds of the **state lottery** and is distributed by population to all 76 incorporated cities and towns in Arizona. In many states, lotteries are now the vogue. Raising tax revenues through lotteries is a smart move because it frees funds from other sources, and makes it possible to use them for transportation.

14. Although not a revenue-raising measure, the issue of **contracting out work** rather than using government employees should be discussed as a possible revenue-saving measure. Contracting does have some inherent problems such as the negative impact on current employees. Nevertheless, some communities, such as Palos Verdes, California, have substantially reduced costs and increased service by contracting out street maintenance. In public transportation it may be possible to contract out various services to private operators. This is an innovative idea that should be pursued.

15. The 1981 federal tax legislation made it easy and attractive for private companies to help public transit agencies finance purchase of transit vehicles. Under the new law, public transit authorities issue tax-exempt revenue bonds to finance purchase of transit vehicles. The bonds are secured by the promise of a private firm to pay. Then a **leasing arrangement** is struc-

tured so that the public bond proceeds pay for most of the purchase price of the vehicle but are supplemented by the private firm's capital. Ownership rests with the private firm, which is able to claim accelerated depreciation allowances for tax purposes.

16. Aware that a healthy transit system is good for their employees and hence, their companies, many employers are beginning to **subsidize transit fares** for their employees. In Seattle, a new kind of incentive has been introduced. All holders of valid monthly or annual Metro passes can receive early-dining discounts at 11 restaurants—each near a bus stop. Obviously, an idea such as this must be promoted and the organization subsidizing fares must be convinced that this is desirable, and necessary.
17. Many local agencies are beginning to draw on local developers to fund capital improvements as described in 9. In a variation of that theme, some **developers, employers,** and other **businessmen are taking responsibility** for their own street improvements and/or transportation services. In Newport Beach, California, for example, four developers entered into an agreement to fund improvements to several intersections where traffic from their complexes contributed to congestion. Cooperative ventures such as this one can extend to the purchase of transit equipment and the construction of public transportation facilities.

A review of the information presented in this subsection suggests that the financial picture for transit is not as bleak as might be thought. There are mechanisms available through which funds can be generated for transit purposes. If these efforts can be tied to effective policies, the results could be spectacular.

3.3.2 ***Financing Policies***—An argument can be made that the overall composition of transit which has evolved over the past 20 years should not be fundamentally altered. Financial and institutional arrangements have been rather firmly established and survey results indicate general agreement as to the distribution of transit's benefits. For the most part, these arrangements have led toward operating and capital improvements. The services have contributed toward meeting certain objectives. However, transit subsidies have also contributed to industry-wide and transit agency specific financial crises and productivity declines of the past decade.

The bottom line seems to be how adequate and predictable transit financial assistance can be provided in a way that promotes transit use. A balanced financial program consisting of major user involvement and a tripartite arrangement of governmental participation represents a prudent course of action for the future. *The issue is not whether the nation's transit systems should be subsidized but rather how this should best be done.* Some suggestions and recommendations are offered in this regard:

1. Transit systems should strive to become less dependent upon *cash* fares and focus on:
   - Prepaid transit fare systems, including weekly and monthly passes and permits.
   - User side subsidies for the transportation disadvantaged.
   - Employer paid or shared fares (as an employee benefit—much like free parking is offered to all or certain employees).
   - Application of new technology and techniques to simplify and reduce the cost of fare collection.
   - Free or reduced fare programs paid for from the proceeds of special dedicated funds. An example is the Free Transit Program for Senior Citizens in Pennsylvania funded through the state lottery.
2. Private enterprise should be given direct financial incentives to promote and support transit services in its community or region. Private sector involvement in public transit has been sorely lacking, but it offers tremendous resources which could be used to benefit transit. Much greater attention should be focused on how private companies can be drawn into supporting transit to a much larger extent than has been experienced to date.
3. Tax incentives for the "privatization" of public transit services should be offered to major employers who benefit from such services. Likewise, federal and state deductions would provide strong incentives for persons to commute by transit rather than by auto.
4. The federal government's financial role in transit should continue but the program red tape, regulations, and procedural requirements should be relaxed. Some federal grants for rural

and small urban transit systems have produced substantial bureaucratic red tape. This entire process needs a major overhaul.

5. Governments are urged to encourage various types of efficiency improvements and to bring escalating costs under control through various incentive programs and the adoption of performance standards. Tying subsidies to improvements in cost recovery, operating performance or labor productivity strengthens the justification for continuing operating assistance.

It is clear, from the information presented in this chapter, that the public transit industry is facing some severe financial problems. But this is true of other vital areas in the U.S. economy and it can legitimately be asked why transit deserves governmental funding support.

Perhaps the best statement on governmental support for public transportation is found in a House Committee Report which accompanied the passage of the Urban Mass Transportation Act of 1964 (P.L. 88-365). The House Committee cited the following reasons for mass transit being a national problem:

- The problems of mass transit are not only restricted to large cities or any particular area of the country.
- Mass transportation needs have out stripped the present resources of cities and states.
- The continued economic vitality and growth of our urban areas, which are dependent on mass transportation, is essential to our national welfare.
- Public transportation is not necessarily a local issue. A number of public transportation services spill over into local jurisdictions and across state lines.
- Increased automobile traffic has contributed to increased police costs, cost in lives and property losses as a result of accidents.
- An incalculable number of man-hours is lost due to commuting through traffic congestion.

In addition, many smaller systems which currently rely on federal aid to cover 25 percent or more of operating costs would substantially reduce or terminate service if federal aid were phased out. Federal requirements for accessibility "resulting in increased operating and maintenance costs for lifts and paratransit services" and half fare programs also contribute to rising operating deficits. The federal government should continue to bear some financial responsibility for these added operating costs which result from federal mandate. For the above reasons AASHTO strongly reaffirms that public transportation is a national as well as a state and local concern and that federal aid should allow for flexibility in supporting operating costs.

CHAPTER 4

INSTITUTIONAL ARRANGEMENTS

4.0 INTRODUCTION

This chapter describes the institutional framework in which public transportation is provided and offers alternative roles and responsibilities for the organizations which are, and should be, concerned about public transportation. Alternative roles and responsibilities are discussed with emphasis on the issues which must be considered.

4.1 INSTITUTIONAL ROLES AND RESPONSIBILITIES

4.1.1 ***Federal Government***—The federal government is a significant force in establishing public transportation policy and providing funds.

The federal Department of Transportation (DOT), established in 1966, was given the primary responsibility to conduct "the coordinated, effective administration of the transportation programs of the federal government." However, a 1977 GAO report identified approximately 114 federal funding programs administered by 28 federal agencies.

The most important federal agency involved with public transportation is the Urban Mass Transportation Administration (UMTA) whose mission is:

- To assist in the development of improved mass transportation facilities, equipment, techniques, and methods.
- To encourage the planning and establishment of areawide urban mass transportation systems where they are cost effective.
- To provide assistance to state and local governments in financing such systems.
- To encourage private sector involvement in local mass transportation systems.

UMTA's public transportation assistance programs may be summarized as follows:

- Discretionary Capital Assistance Grants and Loans.
- Formula Operating and Capital Assistance.
- Mass Transit Account Distribution Program for Fiscal Year 1983 and Block Grant Program.
- Grants for University Research and Training, Managerial Training, and Technical Studies.
- Capital and Operating Formula Assistance for Nonurbanized Areas.

As with almost any public expenditure, statutory/regulatory requirements are attached to UMTA grants. These requirements relate to the following areas: labor, the environment, special interest groups, minorities, and matters of national interest. Although UMTA has established some minimum thresholds for the application of these regulations, collective impacts of these requirements on state and local agencies have not been a primary concern to UMTA.

Another area of UMTA responsibility is technical assistance. Although increased emphasis is being placed on this area, ready access to day-to-day information and answers is still difficult to receive for local and state managers. Although a certain amount of abstracting and cataloging has been done, local decision makers often tackle a problem which may have been studied, at great expense, by other agencies dealing with transportation in the U.S.

Other federal agencies also play a role in public transit, usually in the provision of specialized transportation designed to serve groups such as the elderly and handicapped.

4.1.2 ***State Government***—State involvement with public transportation varies widely and can include policy direction; long- and short-range planning; funding for planning, construction, and operation of transit projects; regulating for environmental, safety, and economic reasons; and in a few cases, actually owning and operating transit systems. The primary transportation responsibility of most states, however, continues to be the construction, maintenance, and operation of highways.

Multimodal transportation agencies at the state level (DOTs) have evolved for a variety of reasons, including the goal of a balanced, multimodal transportation system; coordination of transportation with other areas of state involvement; elimination of duplicative efforts by separate modal agencies; federal mandates; and effective communication with federal agencies. The internal organization of state DOTs varies: some are organized along functional lines, whereas others reflect a modal organization.

In many cases, state involvement with public transportation transcends the DOT and includes a regulatory body (e.g., public utility commissions) and other state agencies with specialized clients (e.g., elderly and handicapped). Other factors impacting multimodal transit planning and services include policy and budget constraints.

4.1.3 ***Local Government***—The primary planners and providers of public transportation are at the local level. Although municipalities traditionally provided public transit service, the metropolitan perspective has been widely adopted to address the regional significance of transportation as depicted by daily movement of people beyond jurisdictional boundaries.

Regional transportation bodies are becoming increasingly involved in the provision of public transportation, often planning and coordinating the activities of a great many transit systems in a region, but without inherent implementation powers of their own. Federal regulations have encouraged the proliferation of regional bodies. On the basis of the 1973 Federal Transportation Act, the Federal DOT established a regulation in 1974 requiring that in each urbanized region a metropolitan planning organization (MPO) be established and be responsible for regional transportation planning, including clearance of all projects to receive federal support.

Criticisms of regional agencies have come from both the federal level and local communities. Some federal agencies consider the MPOs as not being powerful and effective enough to maximize the federal program impact. Local communities, on the other hand, often view regional agencies as an unauthorized, unconstitutional, and undesirable fourth level of government. In addition, many local representatives have criticized regional agencies on the basis that they have developed into bureaucratic functionaries concerned more with what the federal programs require.

4.1.4 ***Private Sector***—This group is becoming increasingly significant. Among the services provided by the private sector are:

- Urban transit systems (the few that exist are usually providing service under contract to public agencies).
- Taxicab companies (sometimes under contract to publicly-owned transit systems).
- Intercity bus companies (sometimes subsidized by public agencies).
- Private and private non-profit, client oriented transportation programs (sometimes part of larger programs such as rest homes, shelter work sites, meal programs, etc.).

The transit industry also uses a variety of private support services and suppliers in its day-to-day business. Among these are vehicle manufacturers/vendors, parts and equipment manufacturers/vendors, consumables suppliers (fuel, tires, oil, etc.), maintenance jobbers, professionals (accounting, auditing, architectural and engineering, marketing, data processing, personnel services, planning, etc.), and construction related services.

Private "user" groups also play a role in this area. Transit services are sometimes subsidized directly or users are subsidized for transit costs. Employers, schools, retailers and others use this process. Joint land development and close-by development at transfer points or stations also are important ways to benefit both the private and public sectors. Independent vanpool and carpool programs have been established across the nation. In some areas, volunteer drivers have played a role in the transportation of clients, neighbors, and friends.

4.1.5 ***Labor***—Increasing labor costs are a major problem. Whereas other industries have been able to use expanding technologies to mechanize and automate and reduce costs, transit is labor intensive. Furthermore, transit systems may be constrained by labor contracts and cost of living provisions which have risen appreciably during the last ten years. Also, contract work rules often interfered with rational resource allocation. For example, peak-hour demand for additional drivers often means paying for an entire shift because of contract provisions prohibiting use of part-time drivers.

4.2 INSTITUTIONAL ALTERNATIVES

The primary purpose behind the need for a reevaluation of the institutional framework within which public transportation is provided is to address the problems of the transit industry previously described. The following objectives should be considered when examining changes in roles as a way of improving public transportation:

- Service continuity
- Service expansion
- Effectiveness in service coverage
- Efficiency in service delivery

In order that these objectives may be met, public transportation must operate within a dynamic planning process. The institutional framework that will permit this to occur is discussed below.

4.2.1 ***Federal***—Significant changes, in key functional areas, are desirable in the role of the federal government.

Funding—As discussed in previous chapters, funding for public transportation involves questions of subsidy and user fees. The range of federal funding alternatives includes decreased or increased subsidy for the capital and/or operating costs of public transportation. Limiting federal financial assistance to capital costs, the current Administration's proposal, would necessitate increased user fees or substitute subsidies by each state or local government. Besides the amount and purpose of federal funding is the question of disbursement (e.g., block grants, stipulated funds). The New Federalism and the beginning of the Section 9 program indicate a trend toward local discretion on expenditure of federal funds.

Rules and Regulations—Federal rules and regulations impacting public transportation must be examined since they often escalate construction and operating costs, and contribute to service inefficiencies and disruptions. However, since many regulations are of national significance—such as the "Buy America Requirements"—local discretion seems unlikely and, in many cases, inappropriate. A reassessment of these rules and regulations is needed, with appropriate state and local input.

Planning and Coordination—Federal efforts to improve the transportation planning process have included issuance of regulations jointly by FHWA and UMTA to strengthen regional transportation planning by requiring each urban area to develop a single transportation plan for highways and transit. According to a report by the Comptroller General of the United States (1979), the plan requirements have resulted in increased emphasis on short-range planning, but have not had much of an impact on the planning process and the types of transportation projects being implemented.

Although existing federal requirements for transportation planning encourage a multimodal perspective, most federal funding remains along modal lines. Any reorganization of the institutional framework will have to address this paradox and, in a broader sense, what the federal role as coordinator should be.

Organizational Structure—It has been suggested that federal involvement with public transportation may be more efficiently executed by combining the various modal interests in the federal DOT into one "Surface Transportation Administration," with the major change being combining FHWA with UMTA. The idea has apparently not gathered momentum, although theoretically sound, because FHWA and UMTA primarily serve different constituencies: state and local governments, respectively. This serves as a reminder that any revision to the institutional framework must consider the role of highways and highway spending, and that any federal reorganization program to meet these objectives for public transportation must consider both constituencies and functions.

4.2.2 ***State***—Roles and responsibilities for the states should include policy directions and coordination, financial support, and, in some instances, ownership and operation of certain public transportation systems.

Policy Direction—The state is the appropriate governmental level to formulate state transit policies and to coordinate federal involvement with local transportation planning and service agencies. Whereas local agencies may have a somewhat limited focus, a statewide perspective may be appropriate. Similarly, planning guidelines may be more appropriately formulated at the state level than at the federal level.

Financial Support—If federal financial assistance for public transportation is eliminated or decreased, states may be compelled to provide subsidies in their absence. However, massive capital and operating financial requirements may be beyond the means of most states in a time of fiscal shortages and frugality.

Ownership and Operation—Whereas the federal government provides Amtrak service since it is of national significance, it may be appropriate for states to own, operate, and directly subsidize public transportation of statewide significance, such as needed inter-regional services not provided by the private sector. Also, it may be appropriate, on occasion, for the state to acquire, operate, or directly subsidize an intraregional service until a local sponsor/operator can be found.

State Organizational Structure—Reorganization of state level agencies involved with transportation may be appropriate in those states with fragmented, uncoordinated public transportation programs. States may wish to reorganize along the most functional lines possible to implement any new institutional framework adopted at the federal and local levels.

Although each state will develop its own public transportation program, it seems useful to note the important characteristics of a strong state transit system. A strong state transit program should possess the following characteristics:

- Taxing authority or dedicated funding.
- Control or coordination authority over a wide range of transit types.
- Access to a wide range of funding sources.
- Responsibility for financial, technical, management, and planning programs.

4.2.3 ***Local***—The position of the local agencies is a difficult one. Most local level governments involved with transit find themselves in the paradox of having the responsibility for providing public transportation, but without access to adequate financial resources. The primary issue to be addressed regarding local organization, therefore, is financing—the sources, the amount of local discretion in expenditure, and regulations affecting its use. Also of great importance is developing an organizational structure which efficiently and effectively facilitates public transportation.

Complete decentralized responsibility for public transportation planning and funding to the local level may be appropriate, given local leaders are best able to determine local needs and priorities, and that each area differs demographically, physically, and economically from another. However, overlapping service areas and jurisdictions seem to necessitate a regional perspective, a fact already acknowledged by existing federal regulations.

Transit Organizational Structure—Studies of transit systems have revealed a variety of organizational structural factors that affect system performance. Most studies have concluded that there is no one best way to organize, and any one particular way of organizing is not equally effective in all situations.

Private Sector—It is now realized that while public transportation is indeed a necessity, it can be provided in many different ways including private sector service provisions. Efforts have already been made to encourage private sector service by, for example, regulatory reform of the intercity bus industry. However, further institutional changes are necessary to encourage increased private participation. Examples of needed changes include additional regulatory reform for intrastate intercity bus operators, a reexamination of public system financial return requirements, and planning for private participation—where appropriate—in all levels of transit system development. It is important to note, however, that the private sector is not a panacea for the transit industry's problems.

4.2.4 ***Labor***—The cost component of labor must be stabilized. Future wage increases for labor must be consistent with productivity increases for the transit systems. Other opportunities, for labor cost stabilization, include the use of part-time labor and private services, where appropriate.

4.3 CONCLUSIONS

Several important conclusions emerge from a consideration of this topic, and the major institutional needs and responsibilities are listed below:

Federal

- Provide continuous financial assistance to designated recipients, for disbursement/expenditure for public transportation capital and operating costs.
- Mandate regional planning and coordination.
- Reexamine "rules and regulations" for "national significance."
- Continue to provide public transportation services of national significance (i.e., Amtrak).

State

- Adopt statewide multimodal transportation policies.
- Provide financial assistance to transit systems for public transportation capital and operating costs.
- Formulate planning and service coordination guidelines and requirements for regional bodies and state agencies.
- Reexamine rules and regulations to streamline process and encourage private sector participation in public transportation.
- Provide or support public transportation services of statewide significance, or services of regional significance.
- Provide input to the federal government regarding determination of rules and regulations of national significance.

Local

- Provide primary public transportation service delivery.
- Conduct continuous regional planning coordination and funding process characterized by a multimodal perspective.

Implementation of the items listed above will substantially improve the institutional framework for public transportation.

CHAPTER 5

TECHNOLOGY AND INNOVATION

5.0 INTRODUCTION

The public transportation industry has moved through several clearly defined technological changes. Each new technology has had an impact on costs and level of service. This chapter examines the current technology of public transportation and discusses the future of technological innovation in the public transportation industry in the next ten years.

5.1 CURRENT BUS TECHNOLOGY

The motor bus has been a dynamic force in public transportation in the U.S. Prior to World War II, a large number of manufacturers provided vehicles for an expanding industry. After the war, as the transit started to decline, bus manufacture became concentrated in a much smaller number of firms. Problems associated with this change developed in two significant areas:

1. Transit operators could not control which make of bus they received and thus could not control the design quality of the product.
2. There was no method for introducing new technology into buses if it involved an increase in the initial vehicle price.

Concern about the second problem inspired UMTA to implement the Transbus program in 1971. Briefly stated, this program established a design competition for the development of the next generation of transit buses. The five goals of the Transbus program were to:

1. Increase trip speed,
2. Improve passenger comfort and safety,
3. Improve environmental compatibility,
4. Improve aesthetics, and
5. Reduce maintenance and repair costs.

The trend toward increased passenger comfort, amenities, and visual style, begun with the "New Look," was to be advanced by the Transbus program. Three prototype designs were developed that incorporated numerous innovative features, including very low floor heights. Unfortunately, the cost penalties associated with the low floors and some of the new design features contributed to the prototype's failure to meet the fifth program goal of reduced maintenance cost. This problem, in conjunction with UMTA's failure to implement a viable plan for developing the best features of the prototypes into a production design, doomed the program.

In the latter part of the 1970s, GMC and Flxible introduced a new line of buses that was dubbed Advance Design Buses (ADBs). The results were less than spectacular. As increasing numbers of ADBs were placed in service, it became apparent that these new buses were unreliable. In comparison with the "New Look" buses, ADBs required as much as three times more maintenance and delivered poorer fuel economy.

The poor performance of ADBs has resulted in changes to the transit bus procurement strategy, and these changes are continuing. Many transit operators have turned to Canadian-manufactured "New Look" buses for improved reliability and lower maintenance costs. These buses, supplied by the GM Diesel Division or Flyer Industries, are generally satisfactory in both quality and performance.

An unprecedented number of older buses, primarily GMC "New Looks," are being completely rehabilitated. Operators who select this strategy obtain a five- to seven-year extension of the service life of a reliable and cost-effective bus for half the cost of an ADB. Rehabilitation will continue to be a popular alternative to the purchase of new buses until the ADBs are improved or another competitor offers a better model.

It should not be thought that this signals the end of new bus technology opportunities. One of the more interesting recent developments is the increasing use of articulated buses by major operators. It can be argued, with some truth, that this is merely the extension of existing bus technology into larger units, and that nothing new is really being achieved. But the increased involvement of articulated buses in urban transit operations suggests that it does have significant advantages over existing vehicles.

5.2 CURRENT URBAN RAIL TECHNOLOGY

Urban passenger rail can be considered under three generalized categories: older heavy rail systems, new heavy rail systems, and light rail systems. Each one is discussed in the following sub-sections.

5.2.1 ***Older Heavy Rail Systems***—Many senior citizens of the United States grew up with systems that fall into this category. Located in Boston, New York, Chicago, and other major cities in the east, they are characterized by underground or elevated trackage and their large ridership capacity. These systems are characterized by full grade separation electric propulsion, multiple-unit trains, and scheduled speeds of 20 to 50 mph. The very extensive New York City Transit Authority (NYCTA) subway system has nearly 7,000 cars, and represents, by itself, the majority of rail rapid transit in this country. Its use of four track routes with local and express trains is unique, as is its common use of ten-car trains. Thus, a ten-car train will handle 2,550 persons, and on some routes, such trains operate every two minutes in the peak, carrying passengers at the rate of 76,500 per hour past a given point. This rate is seldom achieved for more than 15 to 30 minutes, however. Such volumes are not found elsewhere in this country.

Other cities, such as Boston, Philadelphia, and Chicago, have rail transit systems dating from the same period as New York's, about 1905-1940, and have some very recent extensions. Routes in these cities typically handle from 50,000 to 300,000 passengers per day, with perhaps 15 to 20 percent of the day's travel during each rush hour.

Operating costs of traditional, labor-intensive rail rapid transit systems tend to be high because of two-man (motorman and conductor) train crews and the attended stations necessary for fare collection. However, with very high volumes (found in only a few places), cost per passenger is sometimes quite low. Capital costs are quite a different matter, as they are by far the highest of the various types of systems.

It would be a mistake to think that the older heavy rail systems are not constantly upgraded. New York City has an ambitious program to modernize its vehicles, including the purchase of 1,375 subway cars from the Kawasaki Company in Japan. A similar effort is underway in Chicago, where half of the existing fleet will be replaced with a new car developed by the Budd Company. These cars are expected to add a higher degree of speed (up to 70 mph) and comfort. Wherever possible, technological innovation developed for the new heavy rail systems is being acquired for the older systems as well.

5.2.2 ***New Heavy Rail Systems***—Modern rail rapid transit in the United States is an evolutionary development of traditional rapid transit. It is fully grade separated and uses railway track and direct-current electrification at moderate voltages, 659 to 1,000 (up from the older 600 volts dc). It stresses high performance trains with running speeds of 75 to 80 mph, averaging 35 to 50 mph, and employs some forms of automation Much of the existing technologies used by the new systems were first used by San Francisco's Bay Area Rapid Transit (BART) and the Port Authority Transit Corporation (PATCO) connecting Philadelphia to southern New Jersey. These systems were designed specifically to compete with the private automobile. They feature fast, frequent service and convenient highway access, with large park-and-ride lots at outlying stations. Trains are one man operated to reduce operating expenses, this being made feasible by various forms of automatic train operation (ATO). Automatic fare collection in the stations keeps all money under lock and key and minimizes station staff.

Modern rapid transit systems are under construction in Washington, D.C., Miami, Baltimore, and Atlanta. These will share major concepts with BART and/or PATCO: high performance with automation to varying degrees. Washington Metro is now effectively operational. It has been relatively free of significant technical failures such as those affecting BART. Metro's consultants selected standard gauge, conventional third rail, and 750 volts dc power supply, along with a conventional resistance controller used in conjunction with automatic train operation. Installation of an automatic fare collection system has been implemented but on the initial segment fares were collected in buy-type fare boxes under the eyes of a station attendant. Metro features bus-to-train transfers, park-and-ride lots, and fast, frequent service. Metro has been plagued by very high construction costs, with consideration having been given to truncating the planned system, but construction continues.

Modern rapid transit is expensive to build, but the three modern operating properties have proven that the American motorist can be attracted to transit, if the service is fast, frequent, and reliable. (For example, over 90 percent of PATCO's daily riders start their trip by getting into a private automobile and driving, or being driven, to a station, then getting out of the automobile and into a train for the remaining journey to town).

5.2.3 ***Light Rail Systems (LRT)***—The United States is now recognizing that light rail transit is a viable alternative. Light rail transit (LRT) is an evolutionary development of the street railway toward modern rapid transit. It uses a railway track, usually with overhead electric power distribution, and employs cars much like streetcars, but possessing higher performance. Its track is usually segregated from traffic, but not necessarily grade-separated throughout. Often median strips of boulevards or freeways are used. If vehicular traffic is light, track can be in the street. In congested city centers, subways or aerial structures often provide full grade separation. In many European cities, the track area is reserved solely for light rail vehicles, or the entire street is reserved for light rail and pedestrians.

Several United States cities have, or are in the process of establishing, light rail systems. One of the better systems is the San Francisco Municipal Railway (Muni). This is a true light rail system with subway under Market Street in center city, using car-floor-height platforms, and at-grade track in the outlying residential areas. However, in these outlying areas, although the track is at-grade, some is on private right of way, some is on a median strip, while some is in a paved street but separated from vehicular lanes by roughened paving. Vehicles can drive on this rough paving in an emergency, but normally the area is reserved for the light rail vehicles. In still other places, the light rail vehicles run as ordinary streetcars. The cars can be linked in trains and have convertible steps to allow loading from floor height platforms or street level. There are five lines in the system which merge into a single line that runs under Market Street. Up to four-car trains are possible and the highest planned volume is 9,000 passengers per hour. Speeds of up to 55 mph are attainable in the subway, but only 25 to 40 mph is planned on the surface portion. The motorman (train operator) needs a positive signal indicated by the "green light" (using the 100 Hz cab-signal system, the rails carrying the signal) to be able to achieve the higher speed in the subway. In the absence of that signal, the vehicle cannot go over a set speed. Muni's full use of the light rail concept merits careful study and observation. Several other U.S. urban areas are contemplating such systems.

Light rail operating environments range from on-street, mixed traffic to grade-separated conditions. Mixed traffic operations are still prevalent in most of the pre-1978 systems. Mixed traffic is the least desirable situation because of automobile traffic interference that causes delay, impaired reliability, and increased safety hazards. However, exclusive and separated rights of way are not always possible, especially in today's era of scare resources. In fact, many systems have been reduced in magnitude, over original plans, because of inadequate funding.

Technology for LRT has become fast-paced in recent years. A new system (13 miles) under construction in Vancouver, British Columbia, will incorporate the latest technology. This system, being built to help accommodate EXPO-86 (World's Fair) visitors, will feature linear induction motors, single weld rails, and computerized dispatch. EXPO-86 will have a transportation theme, and Vancouver's new LRT will certainly enhance that theme and should prove educational to visitors. The development of the Vancouver, B.C. system is being watched, with much interest, by many persons in the industry. Considerable success in Vancouver could have positive effects for systems planned in other cities in North America.

5.3 SUPPORT SYSTEMS AND MANAGEMENT INITIATIVES

Although there is a natural tendency to concentrate on the technological advantages of improved vehicles, tracks, and signaling systems when considering public transportation, considerable advances have also been made in the creation of new systems designed to support the operating components. It has been suggested that this is the area where the most significant technological innovations will be found in the future. Nowhere is this better illustrated than in the role of computers. The technology is now present that will permit transit patrons to utilize a system without any contact or direct support from a transit employee. To varying degrees this is being practiced with automated guideway rail systems. Functions such as fare collection, vehicle dispatch and control are completely automated and monitored by employees from central control points.

With a large portion of the transit operating dollar going towards labor charges, the potential for savings utilizing new technologies are substantial. To date, in the United States, completely automated systems are found more frequently in private or quasi-private systems, e.g., airports, than in urban transit systems. It is anticipated as new light rail systems come on line or as the older systems are upgraded, a higher degree of automation will take place.

Integration of computers into office type functions is taking place at a very fast pace. The lower cost and ease of use of microcomputers has greatly accelerated this process. The use of the computer for word processing, budgeting, and data base management have now become commonplace. The analytical power of the computer has been recognized and is being increasingly used to support planning, modeling, system design, and other complex areas of transit management.

The use of new and improved systems in public transportation extends beyond the development of automated and integrated operations and the expansion of computer operations. It touches the whole sphere of management involvement and the development of new techniques, particularly those relating to paratransit activities and the role of the private sector. In other chapters of this report, attention is drawn to this development. But, it is appropriate to add some comments here, in order to emphasize the importance attached to this development. The role of innovative management in the success of the industry is just as important as that of innovative operational systems and new vehicles. Some key areas where this innovative management can be put to the test, include:

- Agreements with labor unions to avoid excessive cost-of-living increases and to keep real transit labor cost increases in line with productivity increases and with local government cost increases.
- Systematic review of opportunities to involve private operators through provision of franchises, contracts, and/or other means of assisting them wherever analysis indicates that potential cost savings or other benefits are expected to occur.
- Active efforts to negotiate with major land developers, public activity centers, and employers to support transit service through direct provision of connecting service, purchase of service, purchase of passes for employees, or by negotiating with them to locate in-transit corridors.
- Agreements with local governments to provide a basis for reducing parking requirements in return for the provision of transit service, according to carefully analyzed time schedules and quantities of service and parking reduction.
- Adoption of local, regional, and state automobile disincentives, including increases in parking meter rates, private parking facility taxes, fuel tax increases, parking restrictions, and special vehicle registration programs.
- Improvement of public information programs, both to facilitate use of transit systems as well as to improve the image of transit with the public as a whole.
- Development of standards and criteria for service improvements and service cutbacks to provide a more rational economic basis for changes in service and to counter uninformed political decision making on the provision of service.
- Periodic adjustment of fares in accord with inflation and changing costs of different types of service, to avoid large disruptive fare increases and to educate the public more on transit finance issues.

5.4 THE FUTURE OF TECHNOLOGICAL INNOVATION

This chapter has emphasized the importance of technological change and management innovation in the growth of the public transportation industry. It is now appropriate to view what can be expected in the future, and how these new developments will affect the growth and well-being of the industry, and some thought should be given to the respective roles of government and the private sector. In developing this section, extensive use has been made of published reports from government and private sector sources. Discussions were also held with key persons in the public transportation industry, including operators, suppliers, and elected officials.

The major conclusion that seems to emerge from this effort is that innovation and change will be much greater in the systems and management areas than it will be in areas of new vehicle and guidance technology. Transit operators will make better use of what they have now rather than undergoing detailed improvements. The ability of the industry to generate more efficient bus engines, or better light rail cars will be marginal, at best. However, significant advances can be expected in new management and systems approaches, and the coordination of different transit services. Some of the changes that can be expected are discussed below.

5.4.1 ***Paratransit Services***—Paratransit is a general term for the spectrum of service options between the private automobile and fixed-route, fixed-schedule buses. These services include (among others) shared-ride taxis, carpools and vanpools, jitneys, subscription buses, and demand-responsive buses. For many of these alternatives, operating policies can be varied to adjust service to changing travel patterns and demand. Paratransit elements thus enable an operator to provide special, personalized service in areas where it would otherwise be impossible. They should be a key component of future urban systems, especially in lower density areas.

At least three major applications for future paratransit options can be identified:

1. Paratransit shows great promise of extending transit service to the lower density suburban areas of large cities.
2. Paratransit can provide circulation service in dense downtown areas. Typical of this type of operation are jitneys,

small vehicles which operate on fixed downtown routes and which can be hailed by passengers anywhere along the route.

3. Paratransit can be used to provide special transportation services to groups such as the handicapped or the elderly. For these applications, special modifications may be necessary, such as extra-wide doors, lifts for wheelchairs, and special seating configurations.

Future paratransit services in large urban areas will probably make extensive use of computer or microcomputer routing and dispatch services, both in configuring services to particular needs of their own coverage areas and in tying these services to line-haul bus or rail operations which cover the entire region.

5.4.2 ***Standard Bus Operations***—The future will see further expansions of standard bus operations. These are, after all, the basic public transportation systems serving most areas of the U.S. The most innovative aspect of these standard bus operations in the future might be the ability to link transit and paratransit services which may lead to the rise of cooperative regional-coverage bus systems. In such systems, paratransit would serve the suburbs and special users, and fixed-route transit would serve downtown areas and activity corridors; express transit on exclusive lanes would link suburban activity centers and downtown areas. As part of automated traffic control, signals may be programmed to give transit vehicles priority over conventional auto traffic, thereby speeding bus flow.

Another change in these operations could be a shift to larger size buses, particularly as suburban living becomes more attractive, and bus transit is assisted by HOV lanes and park-and-ride lots. Such buses will probably be of the articulated type, many of which are currently in service.

5.4.3 ***Automated Guideway Transit (AGT)***—This is one genuine new technology which shows some promise for the future. The rise of automated control technologies has made possible a new family of urban transportation systems. These automated guideway transit (AGT) systems, or people movers, may simultaneously provide high line capacities and personally tailored service. There are three levels of sophistication in this technology; each is differentiated by its network complexity and control sophistication.

The simplest kind of AGT system is shuttle and loop transit (SLT). Large multiple-passenger vehicles, which carry 10 to 100 people including standees, run back and forth between several stations along a single path (shuttle), or along a closed path between the stations (loop). At the next level of complexity are Group Rapid Transit (GRT) systems, which use medium-size vehicles to carry groups of 12 to 70 people. Personal Rapid Transit (PRT) systems could represent the third level of sophistication, which is not yet fully developed. The added technical sophistication of PRT systems includes more complex and extensive networks, smaller vehicles, and more complex control systems than GRT.

The principal costs of any of these AGT systems are their guideway construction expenses, which amount to 50-70 percent of total capital cost.

The specific role of these technologies is still a subject of intense debate particularly because of the cost levels involved. Proponents claim that, if such systems can eventually be proven reliable, safe, and economical, they could become solutions to local circulation problems in congested downtown areas and help focus revitalization efforts in urban centers. Opponents claim that the costs are excessive and that other options could provide equivalent service for much less money.

5.4.4 ***Dual Mode Transit***—Seattle Metro is looking at buses that can operate either as trolley buses (i.e., using electric power)—or as regular diesel vehicles. This is a relatively straightforward concept and one that seems to have considerable promise. Other more exotic possibilities include:

- The Interactive Road-Vehicle System, where today's traffic control devices would evolve on some urban roads to the point where they not only pass information to the driver, but where they also actually control the vehicles themselves. Automobiles would have to be equipped with special sensors, receivers, brakes, steering, and engine controls to operate on such road segments.
- The Pallet System, where conventional automotive vehicles would be driven onto flatcar-like pallets, each with its own propulsion system and controls that are tied directly to a special system guideway. After the car was fastened on the pallet, it would move off under system control to its destination.
- The Dual-Mode Bus System is func-

tionally identical to a dial-a-ride or demand-responsive system, except that a dual-mode bus mounts a limited-access, high-speed guideway for the line-haul portion of its trip, gaining a time advantage. This also allows the vehicle to draw power from the guideway and increases the capacity of the line-haul segment.

- The Small Personal Vehicle (SPV) System, is one in which small, electrically powered cars are rented by users of the system. Such a system would behave much like a computer-controlled highway but would simplify some of the parking and vehicle management problems in dense areas.

These are only a few examples of some of the new technologies that have been suggested during the past five to ten years. There are other possibilities that can be considered in a broader framework.

5.5.5 ***System Integration***—Despite the options available to meet urban transportation needs in the future, no single option has the flexibility to perform well under the full range of demands and capacity requirements which characterize urban transportation. At least three types of trips have to be served:

1. Circulation traffic—the movement of large numbers of people relatively short distances (less than one mile) in and around major activity centers.
2. Line-haul traffic—moving large numbers of people longer distances (five to ten miles) on a regional basis.
3. Collection/distribution traffic—moving people to access line-haul modes, or getting them a short distance to their destination after a line-haul trip.

The result is a need for an urban transportation system which consists of a mixture of options operating cooperatively, with service tailored to the area or clients being served.

5.5.6 ***Rural Transportation*** —The passenger transportation problems of rural areas in the United States revolve primarily around transporting the disadvantaged—those young, old, poor, handicapped, or unemployed residents who either do not have access to cars or who cannot make full use of the cars they own. As such, rural and small city transportation systems are heavily involved with the social service aspects of providing accessibility.

In most rural areas, public transportation and intercity bus systems do not fill the gap associated with not having a car available. Conventional taxi service can be prohibitively expensive if used for all travel requirements; air, rail, and water transportation are not widely available in all low density areas. Residents without autos are thus often unable to get to work, as well as to health care and other essential services. Where it exists, the need is to provide an alternative option for mobility in low density areas, which lessens the dependency on the private auto.

The problem of serving rural areas with transit is similar to, but more complicated than, that of serving the suburban areas of large cities. Rural transit systems must be able to operate economically in sparsely populated areas and tailor their services to the requirements and limitations of each individual user. Paratransit variants, coordination with private for-profit and social service transportation providers, and ridesharing schemes seem to offer the most promise of meeting rural needs:

- Fixed-route minibuses can run on defined routes once or twice a week.
- Demand-responsive buses can be adapted for low density service by requiring that users request service further in advance (one to two days lead time) than in suburban operations.
- Existing urban systems can be extended into surrounding rural areas on a limited basis.
- Ridesharing and brokerage systems can be developed to pool available transportation resources.
- School buses can provide emergency and public transportation during off-duty hours. There are some regulatory barriers to this approach, and the narrow aisles and small seats on the bus may be a problem for some mobility-limited people.

Because of the extremely low densities involved, fares alone will probably not financially support rural systems, and subsidy from some sources will be required. Since many of the services provide elderly or handicapped residents access to social service programs, such programs frequently have transportation components which can pick up part of the costs. Service coordination is one key to the viability of future rural public transportation systems.

5.6 SUMMARY AND CONCLUSIONS

It is always difficult to speculate intelligently or accurately about the future, especially in an area as sensitive to technological change as transportation. Historically, many transportation technologies have risen, have had extensive periods of application, and have declined as new systems took their place. The history of transportation is a history of how to apply (or not to apply) technologies.

In addition, technology, as applied to transportation, can refer to a wide range of things:

- Hardware (such as a new type of suspension system for an auto, bus, or rail car).
- Software (such as a computer package used to control a system).
- Operational improvements (such as a new way to route buses).
- Management improvements (such as a new technique to finance a system).

Technology improvements emanate from the private sector as unmet needs are identified or new ideas developed. The private sector requires that the rewards of technology development have the probability of exceeding the cost of invention by a margin that will maintain involvement. Early development in the transit industry evolved through this motivational factor. In later years, this motivational factor for the private sector has decreased. As a result, government has been placed in the position of purchaser of the developments on behalf of society. As the only customer, government has had to become interested in furthering technology.

Rates of progress in technology development are governed in part by the urgency of necessity. As streets became overcrowded with street railways and as systems ran into financial difficulties, the need arose for a more flexible vehicle which was not tied to a fixed guideway system. Hence, the development of the motor bus.

Rapid technological improvements are also slow to evolve if there is a reluctance to abandon past investments. A rapid change to new technology is likely only if there is a moderate write-off or a major benefit to be gained. For example, many transit systems today have rehabilitated their older bus fleet rather than scrap them in favor of new state-of-the-art equipment.

It is doubtful that the past periods of rapid technological innovation in the transit industry will be repeated. As previously discussed, the past progress that was made over a relatively short time period (50-60 years) was truly phenomenal. So, the analysis of technology is left with one major conclusion: in the near-term, further development and enhancement of existing technology within current systems will continue, and the challenge for individual operators will be to identify and develop those management and system innovations that will ensure steady increases in transit efficiency and overall productivity.

CHAPTER 6

FUTURE SCENARIOS

6.0 INTRODUCTION

Considerable attention has been directed, in this report and elsewhere, to the actual and potential problems and constraints affecting the public transportation industry. This chapter coordinates the work done earlier and also presents some new ideas and concepts. In addition, the chapter analyzes the different factors in an effort to determine what the future scenario, or scenarios, might be.

Six such factors have been identified and are examined: funding alternatives, management alternatives, private-public sector joint efforts, political cooperation, technological advances, and industry involvement. To a large extent, this chapter coordinates the previous chapters while presenting some new ideas and concepts.

6.1 FUNDING ALTERNATIVES

The future funding scenario for public transportation consists of several components. It is clear that transit managers must consider *transit pricing* from new levels of sophistication. It seems unnecessary to repeat that the availability of subsidies has enabled many transit systems to assign fare revenues a reduced priority. The result has been to further widen the gap between fare box revenues and operating costs. Serious consideration must be given to capturing a larger share of operating cost at the fare box. This is not to say that recovering full marginal cost is desirable as pricing in other sectors of the transportation industry do not operate at perfect economic efficiency. This is true for highways, aviation, and inland waterways.

Better fare policies may help in providing additional funds, but they will probably not be enough. Another area for possible future action lies in *cost control and improved productivity*. In this context, the areas where meaningful progress may be made are:

Controlling labor costs—The industry should stress gains in productivity as a basis for wage increases rather than the cost-of-living formulas.

Realistic levels of service—Careful attention should be paid to the dynamic demographic and economic changes that occur. When necessary, reduction or termination of service should coincide with declining or inadequate demand.

Fostering support by private carriers—Most private carriers have found it difficult to make a profit in the transit industry. To some degree, this is why many of the public systems came into existence or were required to expand. Nevertheless, more attention needs to be paid to the potential of integrating private carriers into public systems.

A third component of the funding scenario is *obtaining funds from a wide variety of sources*. This is already being done and reference can be made to those areas where sufficient funding is currently being provided, through various measures. Oregon and Washington are noteworthy examples. They both have a system where taxes collected by the state are returned to the jurisdiction from which they are collected and dedicated to transit (payroll tax in Oregon, motor vehicle excise tax in Washington). Washington's return of the taxes collected is requisite on local government providing matching money from other locally collected taxes, where appropriate.

Future success will depend on the ability of the industry to correct these problems and initiate the measures already discussed. It seems that three components will make up the transit funding scenario of the future. They are:

1. The federal government contribution will continue but may be reduced. There are numerous economic and political reasons why such elimination is unlikely, but changes are possible in the present system.
2. State and local governments must develop innovative funding mechanisms that will allow them to ensure that transit systems continue to operate effectively and efficiently. A basic criterion for funding would be effective cost containment by the transit operator as verified by performance audits and productivity evaluations.
3. The private sector must become more involved, both as an operator of certain services, and as the provider of funds. Most authorities now agree that is was a mistake to totally eliminate the private sector from public transit, and their new involvement will be welcomed. As noted before, the private sector is not likely to be a panacea for transit problems.

6.2 MANAGEMENT ALTERNATIVES

The basic objective of transit management should be to provide adequate service at acceptable cost. This is a commendable objective for transit management but requires further refinement. For example, what is meant by "adequate service" and "acceptable costs?" A rational manager will try to operate his system so that the economic, operational, and financial needs are met and benefits optimized. However, a governing board may require the manager to think not only in these terms but also to consider the social factors present in this society. If such should arise, then obviously the task of the manager is made more difficult as he has to broaden his overall approach to management to include a factor which cannot be assessed in clear-cut economic terms.

Management efforts must be more specific than in the past. Public transit cannot be all things to all people and the policymakers and the general managers must recognize this fact and act accordingly. In doing so, the manager must recognize the need for new skills and broader knowledge in order to manage effectively in the light of the fundamental changes occurring in nearly all transportation responsibilities. There should be more involvement with transportation-related research activities, strategic planning, creative finance, and innovative service measures.

It is believed there are five major areas of direct concern to transit managers (and others), and which must receive attention in any future developments of the industry. These areas of concern are summarized below.

1. *New Management Structure*—Organizations should allow freedom and flexibility for transit managers. Instead of facing a series of checkpoints, the manager should encounter a series of decision points. Coupled with this should come a change in management philosophy. While the governing boards continue to be responsible for policy issues, they should decrease their involvement in the daily operations of the organization. Under public ownership, ultimate responsibility for routing, scheduling, and fare-setting policy has often been removed from the immediate management of the property, and these decisions have become more subject to political forces. Determining fare levels, in particular, has been influenced by an unwillingness to face the unpopularity associated with increased fares; between 1972 and 1980 the average fare fell by 37 percent in real terms due to the availability of federal operating assistance with its "maintenance of effort" provisions.
2. *Stable Funding Sources*—The transit manager, in collaboration with the governing boards, must seek stable funding sources. Transit financing appears to be at an important crossroads. If conventional transit service levels are to be maintained, not to mention providing expanded service, greater stability in funding sources appears to be required. From a funds management viewpoint, the source of the funds is less important than the reliability of the funds and the absolute dollar level of the funds generated.
3. *Use of the Private Sector*—Innovative management could lead to much closer cooperation with the private sector in some areas. Currently, all major transit systems in the USA are both publicly owned *and* publicly subsidized. An unsubsidized publicly owned system is probably not a viable political option under most existing circumstances—there is typically insufficient leeway between the costs of established labor contracts on one side and political pressures to keep fares low on the other. The more interesting questions are: first, whether there are advantages to a greater level of privately-owned services?; and second, whether these would still require public subsidy? If so, how much subsidy, and what are the issues involved in the public subsidization of privately-owned services?
4. *Marketing*—This is becoming one of the bright new features of transit system management. Those who deal with local transportation demand have discovered the meaning of the phrases "market segmentation" and "product differentiation"—concepts that have long been familiar to marketing people in the consumer industry, but which have been virtually unknown in the transit industry. These concepts say that one must design a product (service) around the needs of particular client groups or market segments, rather than attempt to serve the entire market with a single, undifferentiated product.
   In practical terms, this means that public transportation must diversify and offer urban travelers more choice if it is to preserve its relevance in the cities of tomorrow.
5. *Nationwide Involvement*—For transit management to be fully effective, it needs to be supported by all key participants in the industry. These participants would provide training facilities and programs, legislative support, community information, innovative funding mechanisms and planning support to allow transit managers (and governing boards) to set up long-term programs designed to ensure operational, economic, and financial viability. In the past this has been basically the responsibility of APTA and UMTA. The task will be made easier if the influence and support of AASHTO and FHWA can be brought into the picture.

Associated with this proposal is the need to make management effectiveness a matter of national importance. For that reason, it is strongly suggested that a *national management awareness* *philosophy* be sponsored by UMTA through a variety of devices, and that this philosophy be communicated to all systems throughout the U.S. The development of this philosophy and its promulgation should merit strong support and involvement by all state governments through their appropriate Departments of Transportation. In addition, an attempt should be made to increase the freedom and flexibility of transit managers and make them less dependent on political constraints. Basic to all of this, of course, is an ongoing training and development program with direct and indirect support from the private sector. If the private sector can be encouraged to be a major participant, and support the training efforts of the federal and state governments, then considerable benefit will accrue to the transit industry and society in general.

In conclusion, the future scenario for transit management seems clear and can be summarized under five points:

1. A change in emphasis will be necessary if transit managers are to have the flexibility and freedom to allow them to operate effectively. This will require an awareness of the different responsibilities of the management group and the governing boards, and the acceptance of different roles by the participants.
2. Future managers (and their governing boards) must understand the need for a broad-based funding program and that dedicated funding sources must be developed at the local level. The challenge for the future will be how to manage urban transportation with limited resources.
3. Greater emphasis must be placed on training of future managers to allow them to acquire information and knowledge that will permit them to be effective. At the same time, present managers must receive training at regular intervals.
4. The private sector should be brought into the public transit industry in various ways. The provision of certain services by the private sector might reduce the operational and financial pressures on management.
5. A nationwide combination of UMTA, APTA, FHWA, and AASHTO resources directed at management improvement and support would be worthwhile. These organizations can provide a degree of political, financial, and operational support of considerable value to transit managers throughout the country.

6.3 PUBLIC-PRIVATE SECTOR JOINT EFFORTS

The possibility that the private sector might become more involved in public transportation is one of the more interesting ideas that has surfaced recently. There seems to be a belief, in some quarters, that more involvement by the private sector might well be the factor that will put the transit industry back on the high road. A variety of future possibilities exist, some of which are summarized below.

1. *Financial Involvement*—Private capital is being channeled once again into transportation infrastructure through direct investment, vendor subsidies, special benefit assessments, tax increment financing, joint development, development impact fees, and negotiated contributions.
2. *Cost-Sharing*—The practice of cost-sharing, well established in the highway area, is now spreading to transit. Examples include a $12 million private sector contribution toward the rehabilitation of San Francisco's cable cars and a negotiated agreement by the developers of a large residential complex in Manhattan to underwrite a $30 million rehabilitation of a New York subway station.
3. *Benefit-Sharing*—The principle of benefit-sharing also seems to have possibilities for the future. One example of this technique is the ongoing negotiations between the Washington Metropolitan Transit Authority and local developers wherein the latter would pay "connection fees" for direct underground links to subway stations.
4. *Management of Transport Service*—The private sector is assuming a more active role in the management of transportation services, and this seems likely to continue. Until recently, this type of involvement was limited to large corporations supporting employee transportation programs. Now, privately-sponsored transportation services are spreading beyond large employers, to residential communities, retirement villages, private resorts, college campuses, suburban office parks, medical centers, and apartment complexes.
5. *Transportation Management Associations*—These are nonprofit membership organizations formed by corporate employers, developers, and private institutions to provide transportation services in suburban growth centers and newly urbanized areas where public transit is not available or conveniently accessible. TMAs generate their own revenue through voluntary assessments or membership dues and with these funds support various transportation activities that respond specifically to the needs of their members.
6. *Downtown Transportation Management*—Yet another form of private sector involvement is emerging in cities. In a number of urban areas, the business community, work-

ing through its own organizations, is assuming an increased responsibility in downtown transportation management and in planning for regional mobility. Examples include the Los Angeles Transportation Task Force, the Denver Partnership, the Greater Hartford Chamber of Commerce, and Pittsburgh's Grant Street Cooperative Maintenance Association. Private sector involvement in downtown transportation management is a new phenomenon. Because of federal planning requirements, the responsibility for transportation systems management has been typically delegated to the metropolitan planning organizations, city, county, and state transportation departments and transit agencies.

7. *Private Provision of Service*—Private enterprise has also become more involved in pursuing opportunities to operate local public transportation services. In some communities, private carriers have been brought in by local government under service contracts or franchise agreements. In other localities, private carriers engage in independent, entrepreneurial activities, providing totally unsubsidized services. A belief is growing that government need not operate all the services that the public requires, especially when such services can be delivered more effectively and at a lower cost by the private sector.
8. *Cooperative Transportation*—Another manifestation of private sector involvement in local transportation is the growth of cooperative activities. Four examples are:
    - *Commuter Clubs*—Commuter clubs have sprung up in the suburbs of several metropolitan areas, notably Chicago, Los Angeles, San Francisco, Washington, D.C., and Oklahoma City. The residents of these communities have banded together into nonprofit "clubs" for the purpose of running commuter buses to downtown destinations.
    - *Neighborhood-Based Programs*—This approach, introduced in Huntsville and Madison County, Alabama, is the "volunteer community transit program," a partnership between neighborhoods and the public sector. Under this approach the neighborhoods, acting through specially organized nonprofit Community Improvement Associations, furnish volunteer drivers, gasoline, and program management. The city provides used and reconditioned vans, the county provides preventive maintenance and insurance, and the city Department of Transportation provides overall program management and administration.
    - *Homeowners' Associations*—A third potential approach to cooperative provision of transportation service is through homeowners' associations, the number of which is currently estimated at 20,000. For many years, homeowners' associations have been used as vehicles for maintaining and improving common facilities such as streets, neighborhood parks and swimming pools. More recently, homeowners' associations have also been assuring, generally through contracts with private commercial service companies, selected services, such as street maintenance, upkeep of recreational facilities, refuse collection, snow plowing, and security patrols.

      Currently, there are only a few examples of homeowners' associations providing transportation services, but interest in this approach is growing.
    - *Mobility Clubs*—Finally, there are a few instances of "mobility clubs," organized primarily to serve the needs of elderly persons. Using part-time nonprofessional drivers, such as college students, retired persons, and housewives, these clubs provide highly personalized transportation/escort service to their members. Drivers use their own vehicles, are paid modest rates, and are employed only on an as-needed basis. The clubs can thus keep operating costs very low.

The most solid and enduring basis for private sector involvement lies in the concept of the "enlightened self-interest." Business must be convinced that its participation in local transportation activities will result in a positive gain. This is not to say that business leaders will weigh the benefits of their participation in narrow dollars-and-cents terms. On the contrary, their motivation may often be quite diffuse. It may be a desire to attract and retain the work force, to improve employee productivity and morale, to forego the cost of building additional parking facilities, to facilitate access and reduce congestion around company facilities, to enhance the value of sunk investment in real estate, or even to improve the general business climate in the community. But, however, indirect, the element of self-interest must be there in order to sustain long-term support.

This suggests that effective private-public sector cooperation will not come easily. In fact, it seems clear that certain basic criteria, listed below, must be met if such an undertaking is to be totally successful. This is the message for the future. The basic criteria are:

1. The generally lengthy time frame between the project planning stage through implementation is a major deterrent to maximizing the use of public/private ventures.

Largely because of federal and state regulatory requirements, the public sector can often spend many years moving from planning through feasibility analysis and demonstration projects to full implementation. The private sector is used to working in much shorter time frames and must reach some level of performance within a reasonable time period.

In the future, it will be necessary to streamline the process by eliminating and/or simplifying government rules and regulations.

2. The image of the private sector businessman and public sector managers needs to change through the education process. The profit motive still has a negative connotation although improvement has been noted over the past decade. Public sector managers generally have a low public image because of the belief that many are incompetent. Because of the negative beliefs, much suspicion is raised by the general public when the public and private sector enter into joint benefit arrangements.
3. Initial success in a private-public sector joint effort is extremely important to make the environment conducive to larger later success. It is important to start small in order to build success. If the initial effort is not successful, future opportunities will not materialize.
4. The more successful ventures around the country have received commitment from top management in both private as well as public agencies. The most successful programs are those that have middle level managers, with Chief Executive Officer support, doing the day-to-day work. It is absolutely necessary to have this CEO commitment for success.
5. It is extremely important for each party to identify the role that each participant must play in project adoption. It is also important to develop a consensus on how the program will be measured. If this is not done after the project is implemented or after the program is adopted, difficulties may arise because no one will agree on exactly how the program should be measured or whether it was successful.

It is repeated that private-public sector cooperation and involvement can be of great value to the public transportation industry. But it is not just going to happen. It will take work and dedicated effort.

6.4 POLITICAL COOPERATION

In a large number of cases, political interference has made it difficult for public transportation systems to operate effectively. Political cooperation and support are essential to allow systems to carry out their responsibilities. The purpose of this section is to ascertain how this cooperation might be achieved in the future.

It seems that attempts to generate better political cooperation are long overdue, because such cooperation will lead to a more effective and efficient industry. The implications of this are addressed in the following questions:

1. *Will political cooperation make it possible for public transportation systems to become more effective?*

   The measures of effectiveness of public transportation systems vary from system to system depending on the size and make up of each community. Once effectiveness measures are defined political cooperation can assist each system to become more effective. Funding subsidies can be tied to the successful enactment of improved effectiveness.
2. *Are legislative changes necessary before political cooperation can be developed as a positive factor?*

   A positive answer for all levels of government can be given to this question. Legislative changes at the federal level most certainly must be viewed as a possible positive factor. Many of the states and local governing bodies could provide positive support by enacting legislation which would provide more state and local funding for public transportation providers. (This would also make the transportation provider less dependent on the federal government programs.)
3. *Should political cooperation be sought aggressively as a means of improving/developing public transportation, or is it something that should evolve naturally?*

   Public transportation is often viewed as an unnecessary service since most people have alternate forms of transportation. Thus, if agencies wait for political cooperation to help improve and develop public transportation through natural evolution, not much will happen. Public transportation must be sold actively and continually as a necessary service which can add to the quality of life in any community. In order for this to take place, political cooperation must be sought aggressively at the local, state, and federal levels.
4. *Are there experiences from other countries that might be beneficial for the U.S., and can they be applied?*

   Political activities in other countries in support of public transportation seem to vary considerably depending on the size, density, life styles, and standard of living of each. The country which is closest to the United States, in outlook and temperament, is Canada. In Canada, financial support for public transportation is attained at the provincial and local levels only. The federal government is involved with the *national* transportation networks of air and rail. The Canadian situation may indicate one direction in which the US will eventually move.

5. *Can political support to other activities—e.g., economic development, tourist promotion, integrated transportation, etc.—be used to assist the public transit sector?*

   The factors which lead to strangled transportation networks, including public transportation, can be influenced and mitigated via political cooperation. Control of land use and economic development to achieve acceptable levels of service on transportation networks is an obvious example.

6. *Should education for political support and cooperation be developed throughout the transit industry?*

   Political support and cooperation are essential components of the existing public transportation industry. It follows that the transit industry or individual systems and/or statewide and national organizations must spend time educating themselves in the political processes at the local, state, and federal levels. Political adeptness does not happen overnight. Lobbying at all levels of government is necessary in order to get the needed information to the lawmakers and compete with other lobbyists who are competing for legislative attention and support.

The discussion above suggests that political cooperation is a prerequisite to political support which, in itself, is necessary for successful operation of the transit industry.

6.5 TECHNOLOGICAL ADVANCES

Technological changes in public transportation have not been dramatic in recent years, and in the future, changes may develop even more slowly. There is little likelihood of any major breakthrough in bus technology that would significantly alter transit bus operations or economics in the next 10 to 15 years. For any technological change to have significant impact over this time frame, good prototypes would probably have to be available now.

The same conclusion can be reached about rail technology. Presently, the industry is looking at applications for the magnetic levitation propulsion system. The technology has been developed, but no system currently uses it. Little data therefore exists regarding potential operational problems. The technology appears best suited for high speed applications implying an intercity rather than intracity application.

In terms of ferry services, it seems clear that development of unique new vessels or other major innovations are not on the horizon. Rather, the future emphasis will continue to be on increased utilization of computerization and other efficiencies which may result from smaller incremental improvements to vessels, navigation, and docking facilities.

Far greater advances will be made devising *new procedures* for providing transit services. These procedures will be induced by the changing dynamics of urban employment and residential patterns. Many of these changes will occur at the local level. It becomes very important to document and share these changes. Training becomes an important consideration to ensure personnel are up to date on the latest advances. The new emphasis on participatory management becomes timely and important. To minimize resistance to change, management must build a sense of ownership of the changes amongst the staff.

The opportunities for professional managers and policy makers to broaden the innovative technological/systems/management area for the public transportation industry are extensive. The role of the private sector in such areas is important and should be encouraged. Some key possibilities include:

- *Ridesharing*—This means greater support for increased use of public transportation; for the provision of high-occupancy vehicle lanes and other preferential treatment that provides rewards and incentives for ridesharing; for the development of parking management strategies in urban areas; for the restriction of automobile use in certain parts of cities; and, in general, the promotion of more people-moving efficiency in all highway passenger vehicles.
- *Service Diversification*—Service diversification and decentralization of control will improve the environment for the private sector as a major participant in the provision of public transportation service.
- *Cooperative Financing*—Substantial evidence shows that private capital is beginning to be channeled once again into transportation infrastructure through direct investment, vendor subsidies, special benefit assessments, tax increment financing, joint development, development impact fees, and negotiated contributions.
- *Transportation Management Associations*—Private sector involvement is apparent in the recent emergence of these organizations. In several localities, business, developers, and major employers have banded together in voluntary associations to cooperatively address certain unmet transportation needs.
- *Downtown Transportation Management*—Similar private coalitions are forming in downtown areas. A new term "Downtown

Management" designates collaborative public/private efforts to strengthen downtown economy through coordinated programs in which the business community plays an independent, entrepreneurial role.

- *Urban Transportation Partnerships*—In the case of public/private partnership, the skills and resources of both public and private sector groups can be used to develop a structured approach to meeting transportation needs.
- *Private Sector and Public Infrastructure*—Finally, and most intriguingly, there are signs of private sector interest in coventuring with the public sector in the construction of new rail transit systems. For example, in Dallas a syndicate of prominent local developers has offered to share in the cost of building a 23-mile light rail line that would link major residential and commercial developments in the suburbs with downtown Dallas.

The list is extensive and goes on and on. Its ultimate definition, and success, is limited only by the innovative skills (or lack thereof) of the key persons involved.

The review of technology, in Chapter 5 and above, suggests that technology research should concentrate on ways to make transit systems more attractive and more productive. Only marginal improvements can be expected from advances in hardware design, but service and methods improvements may provide some payoff. Further innovations that make transit more attractive and productive are, therefore, very important. This brief review suggests several key characteristics that are important to further technology advances:

1. Federal funding support must continue to minimize the risk in new product development. The role the government plays, however, must change to make for a more conducive environment. Japan and Germany may serve as useful role models.
2. Public-private cooperation must be encouraged. This should occur on several levels. First, in product development, private industry should be encouraged to participate in development efforts possibly using proprietary control as an incentive. Second, local systems must look to private operators to provide low density and other premium services. Finally, local systems must borrow management techniques such as quality control, cost accountability, and quality circles to increase productivity and lower resistance to change by employees.
3. Newer, more sophisticated marketing techniques need to be applied. Local system must "introduce" themselves to their communities, but also find out what their constituents want from their transit system. Transit can no longer deal with a homogeneous market; the market must be identified and targeted.
4. Resistance to change must be minimized. This does not mean that all change must be embraced, only that the transit industry, like other industries, must take stock of where it has been and where it must go. Clear goals and policies are needed and the commitment of everyone is required.
5. Technology transfer mechanisms are becoming very important. Once new ideas are developed, they should be shared. Formal and informal networking mechanisms are important, and all of this must be supported by good training programs.

The interesting aspect of technological innovation is that everyone can participate. The transit industry has renewed its commitment to improved efficiency and effectiveness and this commitment will serve as the best motivation for innovation by all participants.

6.6 INDUSTRY INVOLVEMENT

A review of successful public transportation and private enterprises throughout the United States shows that involvement in industry activities, and cooperation between these organizations, are important elements of success. It seems reasonable to assume that the public transportation industry of the future will benefit from close association and coordination between transit organizations.

Nationally, industry involvement in transit has centered on three major organizations. The first of these is the American Public Transit Association (APTA). APTA's membership is composed of transit systems (effectively the system managers), and of associate members embracing state and local transportation agencies, planning organizations, equipment manufacturers and dealers, consultants, universities, and others associated with transit. The second group is the American Association of State Highway and Transportation Officials (AASHTO) which is an organization of government officials from the states and territories. The final organization is the federal Urban Mass Transit Administration (UMTA) which is responsible for a number of programs intended to help develop transit planning, operations, and capitalization of the various systems.

Are the roles of these organizations important and, if so—why? Very simply, the roles are important and they have a responsibility to address major problems facing the industry. These problems have already been discussed, but it is appropriate to mention them again.

1. *Public transit funding*—The industry groups should direct their energy to finding new ways to fund their capital programs. In addition, some attention must be given to operational deficits.
2. *Cost-effectiveness and productivity*—This is an area where an efficient industry group could make progress. To get maximum value from available funds, the administrator needs to be a politician as much as a budget-minded manager. Working to change archaic work rules, increase user costs towards market values, make major service adjustments, or to coordinate numerous transportation management tactics, are only a few of the avenues that most administrators must pursue for greater cost effectiveness. In these matters the industry association can convince managers that they must be politically adept enough to persuade local elected officials, and the community at large, of the benefits and ramifications of needed change.
3. *Coordinated urban transportation*—There has been an increase of urban transportation agencies with overlapping constituencies and often conflicting objectives. This has brought about increasing differences of opinion, often with sharp regional and local conflict as to purpose and motivation behind the provision and operation of various transportation facilities and services. This kind of atmosphere has frequently turned to one of confrontation, producing indecision, poor decisions, or no decision—nearly always resulting in costly delays. Again, APTA could take the lead in pursing this in order to improve coordination.
4. *Community relations*—Transit management is often the target for strong public criticism. This criticism, stemming from a failure in community relations, can be attributed to the fact that the urban transportation administrator's agency or organization has not been fully accepted by the public and individual interest groups as one dedicated to the public interest. This is probably the area where an organization like APTA can be the most effective.
5. *Social and technological change*—In recent years, marked changes in urban form, as a result of changing demographics and economics, among other factors, have been steadily altering urban transportation needs and the desired patterns of movement. Clearly, there is a greater need than ever before for the administrator to understand and anticipate changes in urban form. This is something that must continually be stressed by the organization such as APTA at its annual and regional conferences and its regular communications with its membership.

It is suggested that the industry involvement scenario can be presented in three summary points:

1. The industry should include UMTA and FHWA in its "involvement quotient" and work closely with those agencies in the search for a more effective industry. The USDOT agencies have exhibited a much better coordinated effort in the development of transportation systems.
2. APTA and AASHTO should develop a "transportation awareness campaign" directed at important members of Congress. A coordinated approach at the national level should enhance the development of a national coordinated policy which would be in the nation's best interest.
3. APTA and AASHTO should fashion and promote an ongoing "transportation awareness campaign" for all state legislators.

6.7 SUMMARY AND CONCLUSIONS

This chapter has consolidated information presented in other chapters, and added new information developed during a close look at the specific topic of future scenarios. The major conclusion that emerges is that it is possible to develop *one* likely future scenario in which development of the public transit industry will continue. This scenario will provide the base on which recommendations for future action will be built. This has been done in Chapter 7.

The future scenario will incorporate the following:

- *Demographic and land* use changes will present new problems and opportunities for the industry. The population will be older and more likely to use transit for most trips, but the ability of this, and other groups, to maintain mobility will depend on the costs of service.
- *Less federal funding* would create problems for some transit systems. There will be a need to develop more stable funding sources with *state and local governments*, but it is unlikely that funds will be in adequate supply.
- *Transit managers* will experience *less political interference* and have greater flexibility to operate their system. Part of the reason for this change will be increased involvement by the *private sector* in the transit industry.
- *Cost consciousness* will be a key aspect of all transit system operations. Failure to control costs will lead to bankruptcy and the demise of various systems.
- *Professionalism* will take on new meaning in

the industry as managers and governing boards recognize that survival, and expansion, are functions of better professional performance. One significant development from this awareness will be higher levels of *productivity*.

- *Moderate gains in technology* will be of value to the transit industry. Such gains are not likely to be spectacular breakthroughs, but more likely system innovations that develop over time.
- *Increased industry involvement* by all participants, leading to increased political involvement, seems likely to occur. Such involvement will provide the basis for more effective support by legislative bodies and local government elected officials.

For this scenario to develop along the lines suggested, a high level of understanding of the possibilities, plus a desire for cooperation, will be necessary.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

7.0 INTRODUCTION

This chapter presents conclusions and recommendations relating to the problems and opportunities identified earlier. The recommendations have been grouped according to the political or private entities responsible for implementation. Emphasis has been directed to future needs and problems, based on an evaluation of current conditions and forecasts of economic and social conditions.

Implementation of the recommendations can be achieved in various ways. For some, legislative action will be required; for others, joint action by participants in the industry will be necessary. In all cases, effective cooperation and coordination will be keys to success. The point has been made earlier that the public transportation industry is in a dynamic state of transition. A successful transition will depend on new techniques, procedures, and attitudes. The recommendations presented here will contribute significantly to each of these factors and ensure that the transition is indeed successful.

The recommendations have been listed under each of the major participants in the industry. While some of these recommendations tend to overlap between participants, it has generally been possible to define individual responsibilities with some accuracy.

7.1 FEDERAL GOVERNMENT

The role of the federal government was emphasized in the report. Most responsible authorities agree that this role is highly significant. The House Committee report, which accompanied the passage of the Urban Mass Transportation Act of 1964, identified various reasons for a national program relating to mass transportation issues. Among these are:

- The problems of mass transit are not restricted to large cities or any particular area of the country, suggesting that nationwide involvement is necessary.
- Mass transportation needs have outstripped the present resources of cities and states, indicating that a financial crisis is evolving.
- The continued economic vitality and growth of urban areas, which are dependent on mass transportation, is essential to national welfare.
- Public transportation is not necessarily a local issue. A number of public transportation services spill over into local jurisdictions and cross state lines.
- Increased automobile traffic has resulted in increased costs in lives lost and property damaged as a result of accidents.
- A considerable number of man-hours is lost each year due to traffic congestion.

The issues which emphasized the need for public transportation programs 20 years ago are still present. AASHTO reaffirms that public transportation is a national, as well as a state and local concern, and should remain one of the highest priorities of the federal government. It seems clear that the intergovernmental partnership between federal, state, and local governments have been primarily responsible for ending the decline in public transportation. Federal capital and operating assistance have improved the public transportation networks of this nation. It is now appropriate to maintain that improvement and, at the same time, expand and extend public transportation services where warranted.

It has been suggested that the federal government is the only agency that can do this. The resources of the federal agencies are extensive and the political power of those organizations is also impressive. Their involvement seems essential in the future.

It should be recognized, however, that budget limits will require the federal government to direct public transportation funding to those programs which best maintain current services as well as the associated infrastructure and equipment. The federal government should address the issue of how to meet the needs of existing systems while finding ways to develop new systems.

Maximizing federal resources must not result in a downgrading of the federal role. This maximization will require local areas to assume greater responsibilities for their own operations. As they do so, the federal government must reduce regulatory restrictions which are costly and burdensome. The federal government must have a thorough understanding of the cost and administrative consequences of existing and proposed regulations. It is desirable for the federal government to define one policy which remains consistent. A lack of consistency in funding levels is unfair to the other agencies involved, since large decreases in federal assistance fall upon the state and local governments. State and local governments cannot easily compensate for unexpected decreases in federal support.

It should also be noted that development of new technology for the transit industry of the future requires that UMTA takes a more aggressive role. Currently, manufacturers are reluctant to devote resources to research and development because of the low bid requirements by which most transit industries are constrained.

Specific recommendations directed to the federal government are listed below. The fact that these are quite extensive further emphasizes the role of the federal government in the public transportation industry.

1. Adopt taxation, regulatory, and legislative policies to assist public transportation, as summarized below, and ensure that these policies are implemented as expeditiously as possible. Such policies will require action by various decision-making authorities and will require industry support if they are to be successful.

Taxation

- Develop a consistent tax approach regarding tax exempt fringe benefits as they are applied to transit, auto and vanpool users.
- Maintain the special tax laws regarding the lease/buy back of transit equipment and facilities.

Regulatory

- Modify federal labor regulations, as necessary, to allow local transit agencies to negotiate fairly with labor unions.
- Eliminate or modify I.C.C. regulatory procedures to empower the states to implement policies, projects and programs which are of a local nature.
- Consolidate commuter rail safety regulations under one federal agency.
- Authorize transit agencies to self-certify their compliance with UMTA requirements on an annual basis rather than on a per grant basis.
- Revise UMTA's reimbursement and grant release process in order to reduce delays.
- Simplify the EIS process for acquisition of property to be used for park and ride facilities.
- Review deregulation policies to determine where the economic health of some sections of the industry has been affected, and take steps to rectify this situation.

Legislative

- Enact legislation which amends the Federal Employee Liability Act to ensure an even balanced approach between management and labor.
- Exempt local public transit agencies which directly operate commuter rail services from the federal railway labor laws, provided that such local agencies guarantee workers similar benefits under locally provided programs.

2. The federal government is encouraged to continue to carry out its long standing policy of federal, state and local partnership with respect to public transportation financing. Maintenance of this policy requires program funding at current or expanded levels and the ability to continue to utilize federal funding for operations.
3. Base the criteria for major new start initiatives on the worthiness of the project under consideration, as well as the financial capabilities of UMTA.

- The worthiness of new start initiatives must be determined through the analysis of numerous factors, including but not limited to its importance to economic development and/or urban revitalization, service to the transit dependent, expected fare box recovery ratio, alleviation of automobile congestion, environmental and urban design impacts (positive and negative).
- UMTA should phase individual projects so that financial commitments are spread out over time rather than within a few year period.
- UMTA should set a maximum funding level standard which would cap the level of funding provided by the federal government for individual projects. Any costs above this level would be picked up by the local or state government.
- UMTA should require as a prerequisite for new rail start funds that the state and local government establish ongoing stable and reliable funding programs which will ensure the viability of future operations.

4. Establish authorizations for the Mass Transit Account through 1990 at levels which equal the revenues placed into the account.

- UMTA should reserve funds from the Mass Transit Account to ensure that critical projects in rural and small urbanized areas can proceed in a timely and efficient manner. Funds for the 16(b)(2) program should be increased correspondingly to increases in the Mass Transit Account.
- Discretionary funds should not be provided unless formula funds from the affected area have been committed.
- The Section 3 discretionary program, except for projects located in small urbanized or rural areas, should fund those projects which are extraordinary in nature.
- UMTA should provide Section 3 funds

only for projects which have been justified through sound intermodal planning analyses, so that funding is targeted only to the most worthwhile projects essential to transportation needs. The worthiness of major capital investments should be measured by total benefits derived compared to the total costs incurred by all funding sources.

- Section 3 funds should not be distributed based solely on larger local contributions.

5. Include bus revenue miles of private carriers in the allocation of Section 9 funds, but include only those private carriers that have entered into a contractual relationship with the public operator or state or local government.
6. Mechanisms to permit states to reallocate formula funds within the state should be further streamlined in order to permit the most timely and flexible use of funds.
7. Streamline the Section 9 block grant program in order to reduce restrictions on the funds.
8. Provide adequate levels of funding and staffing to support an effective UMTA organization, or
9. Decentralize UMTA authority and program responsibility to the regional and state level as much as possible.
10. Ensure that the requirements and procedures of the various UMTA regional offices are uniform and consistent.
11. Coordinate UMTA and FHWA policies and funding to avoid project duplication.
12. Delegate further authority to states to reallocate federal transit capital and operating funds allocated to that state.
13. Assume a more aggressive lead in the development of the research and technological needs of tomorrow's transit industry.
14. UMTA State Programs Division should be expanded to allow it to more adequately work with states on public transportation activities.
15. Reaffirm UMTA's role in the support of education and training needs of the industry.

7.2 STATE GOVERNMENT

The role of state governments in ensuring a healthy public transportation industry in the future is just as important as that of the federal government. The financial requirements are, of course, significant and attention must be directed to that area. However, the role of the state should extend beyond financial needs and, in conjunction with transit operators and local agencies, be directed towards the following activities:

- Design for system balance: projects and programs should balance projected quality of service, including safety and mobility, with funding availability and highway expansions.
- Provide for system continuity: projects and programs should close gaps in the existing transportation system. One completed facility is likely to offer more benefits than two partly completed facilities.
- Seek the most cost-effective alternatives: the broadest range of possible alternatives must include minimum cost projects. In an age of financial shortages, it is imperative that cost effectiveness be an important criterion for decisions.

In the past, many states have adopted a passive role in transit system developments. It is suggested that this role should change, and the states must see transit as part of a total transportation system. By undertaking this systems type of approach and looking at needs in this context, it should be possible to come up with a series of priority projects that deal with transportation needs and do so effectively. This can be extended from one mode to another and thus ensure that the systems concept is formulated.

Specific recommendations directed to state governments are:

16. Provide stable and reliable sources of funding for public transportation.
17. Implement state policies and legislative incentives which create economic and regulatory environments favorable to public transportation.
18. Develop incentives for encouraging local governments to implement land use guidelines conducive to rational and efficient transportation planning.
19. Authorize funding from a number of varied sources to be directed to transit, including appropriate programs for the elderly and handicapped.
20. Implement state policies, such as tax incentives, which encourage businesses to locate in areas which can be adequately served by transit. Economic development planning should consider public transportation systems, as well as highway systems, when seeking new business opportunities in rural and urban areas.
21. Streamline state regulatory procedures governing motor carrier operations so that private motor bus carriers have a favorable environment within which to operate.
22. Where appropriate, state motor carrier regulations should also ensure that public and private operators do not compete destructively.
23. States should encourage transit management to use well-defined performance and productivity measures for service improvement and accountability. Funding agencies should recognize the varied operating conditions of individual communities.

7.3 LOCAL GOVERNMENT

Local governments are the third element of the federal-state-local partnership and have the greatest ability to impact and influence the future of public transportation.

Local governments have limited resources to meet the capital or operating needs of public transportation. While the bulk of the financial commitment should come from the federal and state levels of government, local agencies have a critical role in defining priorities and keeping them within the bounds of limited resources. As the agency with the greatest input to fare and project planning decisions, local governments must embrace fiscally sound decisions rather than promote politically safe decisions.

Local governments are primarily responsible for promoting and implementing rational land use patterns. Since public transportation services are a necessary, but not sole condition for development, it is incumbent upon local governments to implement comprehensive policies which affect the location decisions of developers. In particular, local governments need to implement policies which "reward" developers for locating in existing transportation corridors (transit and highway) and assess developers for electing areas where transportation services are minimal.

Finally, local governments must be united in their efforts to promote public transportation. Few, if any, transit operations serve only one local jurisdiction. Rather, transit services are primarily regional in nature and therefore need a strong regional planning approach to public transportation. A regional approach is essential to control the overall land use decisions which eventually affect the viability of public transportation.

Specific recommendations directed to local governments are:

24. Provide stable and reliable sources of funding for public transportation.
25. Promote, through zoning and developer incentives, better land use planning designed to optimize the use of transit. This is a relatively inexpensive, straightforward approach to increasing transit effectiveness and financial well-being.
26. Ensure that local government policies (e.g., parking) are compatible with the promotion and expansion of public transportation. This is another relatively inexpensive, straightforward approach to improving transit effectiveness.
27. Provide opportunities for local authorities to participate, with the state, in training and educational programs for local government officials associated with public transportation. In some cases, this will be a continuation of existing procedures but, in many others, it will involve new approaches to the problem.
28. Require public transportation agencies to establish minimum standards for operating efficiency and safety.

7.4 PUBLIC TRANSIT OPERATORS

While the three levels of government are the financial supporters of public transportation, as well as being policy makers on matters which influence service and operations, it is the public operator who must develop strategies and implement policies that ensure efficient, safe, and effective public transportation.

Whereas most ridership gains in the past were due to low fares or service expansions, future ridership gains will have to be achieved through innovative approaches to public transportation. The ability to operate public transit services at current or higher service levels, in a cost-effective manner, will be the operator's greatest challenge in the coming years.

In areas well served by transit, public operators must strive towards maximizing their share of the commutation market. Maximization should not occur through holding fares artificially low, but rather through improvements to existing services, increasing rider's perception of service quality and concentrating on making transit dependable and safe. The major challenge is to make public transportation more competitive against the automobile.

Public operators must also continue their current efforts to control operating costs. Operators must constantly review their procedures and techniques to ensure that public transportation services are provided in the most cost-effective manner. In particular, operators must continue to try to hold the line on labor costs, and attempt to increase labor productivity.

Public operators must also do whatever possible to capture non-fare box revenue. Operators need to look beyond the traditional non-fare box revenue sources (such as advertising) and implement other programs or policies as appropriate.

Public operators must also aggressively market their services. Unlike other social programs, public transportation must be sold to the riding public. At a minimum, public operators must ensure that citizens are aware of the public transportation options provided to them.

A change in emphasis will be necessary if transit managers are to have the flexibility and freedom to allow them to operate effectively. This will require an awareness of the different responsibilities of the management group and the governing boards, and the acceptance of different roles by the participants.

The managers of the future (and their governing boards) must recognize that the days of unlimited federal funding are over and new dedicated funding sources must be developed at the local level. The challenge for the future will be how to manage urban transportation with limited resources.

Specific recommendations directed to the public transit operators are:

29. Direct a percentage of operating budgets to preserving capital investment in equipment and facilities and in implementing preventive maintenance programs. This recognizes that preservation of the existing system is vital for the future of the industry, and that effective steps in this matter must be taken now.
30. Adopt realistic fare policies which are linked to increases in operating costs. In this matter, transit management must have the freedom to make fare decisions that are based on economic reasons.
31. Develop a priority listing of projects, which is in conformity with available resources and realistic programs.
32. Pursue, as effectively as possible, non-fare box sources of revenue.
33. Provide a total transit service by introducing new and innovative actions which would:
    - Utilize smaller vehicles where land use patterns do not warrant traditional size transit buses.
    - Provide park and ride and interceptor lots to capture suburban and outlying area residents, rather than over-extend services to such areas.
    - Provide feeder bus services to meet local public transportation needs or to direct on riders within well defined transit corridors where services are sufficient.
    - Withdraw transit services in favor of vanpools and less expensive operations in areas where traditional transit approaches cannot be supported.
34. Concentrate on improving existing public transportation services which impact the rider's perception of service quality by:
    - Implementing express bus service where appropriate, and in general increasing speeds on public transportation where feasible.
    - Installing bus shelters, maintaining commuter rail stations, and making other improvements so that the first contact with public transportation facilities is positive.
    - Making necessary safety improvements such as the installation of two-way radios on buses, closed circuit television at stations, and the installation of appropriate lighting or other features which increases the sense of security of the public.
35. Employ imaginative and aggressive marketing techniques in efforts to attract new riders.
36. Make extensive use of citizens advisory committees as the basis for an extensive public information and involvement campaign. The success of public transit, in large part, will depend on the perception of the public as to its efficiency and effectiveness.
37. Expand the use of private carriers, under contract to public operators, and ensure that appropriate funding is directed to those private carriers.
38. Utilize more extensively state-of-the-art techniques such as Management Information Systems (MIS) and Transit Information Systems (TIS).
39. Attract and retain good managers by giving them considerable freedom of action to allow them to be fully effective.
40. Implement human resource development programs which include innovative productivity and quality of work items.
41. Ensure that employees are neatly attired, courteous, and considerate of the needs of the traveling public.
42. Maintain effective cost control and fiscal responsibility and, in doing so, be responsible to the appropriate authorities at various levels of government.
43. Actively seek opportunities for private-public cooperation.

7.5 LABOR

The transit industry is fortunate to have an experienced work force with the commitment and energy to operate transit systems effectively. Workers have proven themselves to be very diligent in serving the traveling public. However, practically every analysis of the transit industry has noted the rapid increases in labor costs per vehicle-mile of transit service during the 1970s. Labor costs were the most significant single source of escalating transit deficits during this period, accounting for more than 43 percent of the inflation adjusted growth in the industry's operating losses.

Specific recommendations directed to labor are:

44. Agree to a correlation of labor rates and remuneration with productivity improvements and available funding.
45. Participate with management in planning for legitimate uses of part-time labor.
46. Participate in productivity enhancements activities, as appropriate, and recognize that all participants in the industry (and the public) will benefit when productivity improves.

7.6 PRIVATE OPERATORS

Private operators once operated all of the public transportation services in this country. Whereas the public sector now operates the majority of this system, the private sector also successfully operates in certain parts of the country. Private operators have certain advantages (e.g., labor rates, overhead cost) which often make it less costly for transit service to be provided through them. It is important to all levels of government and to public operators to implement programs and policies which keep private operators healthy.

Specific recommendations directed to private operators are:

47. Actively seek opportunities for private-public cooperation, so that service can be provided which is not only necessary, but also complements service already in place.
48. Maintain financial responsibility for maintenance of equipment and other agreed upon activities if public funds are provided for capital improvements, rolling stock, and/or operating expenses.
49. Avoid destructive competition with other transit operators.

7.7 BUSINESS COMMUNITY

The business community can play a significant role in assisting public transportation. Mention has already been made of the opportunities for private transit operator involvement but the concept can be extended to cover the business sector in a much broader context. However, a question that needs to be answered is what degree of accountability will be demanded by the private sector in return for its involvement? And, as a corollary to that, should the private sector concentrate on support in nonfinancial matters, or should support be given in the financial analysis as well?

The most solid and enduring basis for private sector involvement lies in the concept of "enlightened self-interest." Business must be convinced that its participation in local transportation activities will result in a positive gain. This is not to say that business leaders will weight the benefits of their participation in narrow dollars-and-cents terms. On the contrary, their motivation may often be quite diffuse. It may be a desire to attract and retain the work force, to improve employee productivity and morale, to forego the cost of building additional parking facilities, to facilitate access and reduce congestion around company facilities, to enhance the value of sunk investment in real estate, or even to improve the general business climate in the community. But, however indirect, the element of self-interest must be there in order to sustain long-term support.

Specific recommendations directed to the business community are:

50. Provide political and industry support to the transit industry in its search for funds.
51. Coordinate development of new business opportunities and evaluate the impact of location decisions on transit costs and funding needs.
52. Take full advantage of the $15 per month tax exemption for subsidizing employee commutation expenses.
53. Contribute to the development of passenger shelters, special pedestrian facilities, and direct transit services where appropriate.
54. Provide information to employees (and other riders) that will make it convenient for them to use public transportation for journeys to work, for shopping and recreation, and other purposes. Underwrite the cost of producing special maps and schedules.
55. Work closely with government agencies in the development of new technologies, innovations, and transit programs.

7.8 TRANSIT USERS

Although the transit system exists for the benefit and use of the public, there are a number of things the public can do to help address the issues of today. Users must recognize and actively support the continuation of government subsidies, while accepting the realities that they must pay a "fair share" of the cost. Users must also recognize that they too have a role in promoting the cleanness, safety, and attractiveness of public transportation.

It will take the efforts of many persons to restore transit to a higher level of acceptance and eliminate the "inferior status" classification. In such an effort, the work and support of transit users, and potential users, will be vital.

The transit users can be helpful in many ways and two of the most apparent are in support to realistic levels of service as well as to greater use of private operators, in order to improve financial efficiency.

- *Realistic levels of service.* Careful attention should be paid to the dynamic, demographic and economic changes that occur. When necessary, reduction or termination of service should coincide with declining or inadequate demand, and this should merit the support of transit users.
- *Fostering support by private carriers.* Most private carriers have found it difficult to make a profit in the transit industry. To some degree, this is why many of the public systems came into existence or were required to expand. Nevertheless, more attention needs to be paid to the potential of integrating private carriers into public systems. Private carriers could augment existing systems during peak periods or be assigned specialized routes. The criterion for this effort would be economic efficiency; i.e., can the private carrier make a profit or operate with lower subsidies while providing equivalent levels of service? Transit users should understand what is involved in such cases.

Specific recommendations directed to transit users are:

56. Acknowledge the necessity of fare increases, when required, which correlate with increases in operating costs.
57. Serve as advocates with government as individuals or through organized groups, for programs dealing with public transportation needs.
58. Provide constructive feedback to operators through forums, hearings, meetings, information panels, and letters. Where appropriate, create select committees to offer suggestions for improving service.

It was hoped that the creation of public transit authorities, governed by elected local officials, would eliminate political interference and give the manager the freedom necessary for success. But this does not seem to have occurred. And perhaps the reason lies in the failure of key participants to understand what the role of management should be. Which suggests that transit users should assist in an education process for groups and persons involved.

7.9 INDUSTRY ASSOCIATIONS

A review of successful public transportation and private enterprises throughout the United States shows that involvement in industry activities, and cooperation between these organizations, are criteria for success. It seems reasonable to assume that the public transportation industry of the future will benefit from close association and coordination between transit organizations. This close association should be concerned with improving communications and relationships between industry members and other groups in the government and public sectors.

Nationally, industry involvement in transit has centered on three major organizations. The first of these is the American Public Transit Association (APTA). APTA's membership is composed of transit systems (effectively the system managers), and of associate members embracing state and local transportation agencies, planning organizations, equipment manufacturers and dealers, consultants, universities, and others associated with transit. The second group is the American Association of State Highway and Transportation Officials (AASHTO) which is an organization of government transportation officials from the states and territories. The final organization is the federal Urban Mass Transportation Administration (UMTA) which is responsible for a number of programs intended to help develop transit planning, operations, and capitalization of the various systems.

It is believed that future developments in the industry will benefit from continued involvement of the two industry associations — with the support of UMTA and also FHWA.

Specific recommendations directed to the industry associations are:

59. APTA and AASHTO should fashion and promote an ongoing "transportation awareness campaign" for all state legislators.
60. The industry should include UMTA and FHWA in its "involvement quotient" and work closely with those agencies in the search for a more effective industry. The USDOT agencies have exhibited a much better coordinated effort in the development of transportation systems.
61. APTA and AASHTO should develop a "transportation awareness campaign" directed at important members of Congress. A coordinated approach at the national level should enhance the development of a national coordinated policy which would be in the nation's best interest.

7.10 CONCLUSION

Some thought will have to be given as to how best to implement the 61 recommendations listed in this chapter. Discussion and interaction between a number of participants will be required and, while some of the implementation will be fairly simple, much of it will be complex and complicated. Nonetheless, the recommendations are both relevant and pragmatic, and their implementation should result in a more effective and viable public transportation industry.

AASHTO NEWS

FOR IMMEDIATE RELEASE
May 10, 1985

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AASHTO Recommends Future Direction for Federal-aid Highway Program

The nation's federal-aid highway system will require an investment from federal, state and local government of between $26 billion and $30 billion per year from 1987 through 1995 according to a new report by the American Association of State Highway and Transportation Officials.

The new AASHTO Report entitled, "A New Focus for America's Highways" contains AASHTO's recommendations on the future of the Federal-aid Highway Program.

The AASHTO Report, the second in a series of reports dealing with transportation issues, discusses and analyzes the Federal-aid Highway program and includes recommendations for consideration by AASHTO and others when setting highway policy. The report was accepted by the AASHTO Policy Committee on February 22, 1985. In separate action, the 45 recommendations of the report were approved as AASHTO policy on April 30, 1985 by a two-thirds vote of the 52 AASHTO member departments.

The report offers recommendations for the Federal-aid Highway Program through the completion of the Interstate System in 1990 and beyond. As the Interstate System reaches completion, the report states that the opportunity exists to redefine the federal role in the national highway program.

For the nation's continued economic growth, and for the achievement of the personal mobility Americans want, the federal-aid highway program must remain responsive in helping to meet both current and future highway transportation needs. The report cites four major themes regarding the Federal-aid highway program.

- The nation's highways must be preserved; accelerating deterioration should not be tolerated. In areas experiencing population growth, provisions should be made to adequately accommodate it.

- To assure that highway demands are met, a program of aid to states is required for a System of Highways of National Significance and for a Program of Highways of State and Local Interest.

- The processes involved in conducting a national highway program must be simplified to help ensure an efficient, timely use of available funding.

- The stability of state highway programs must be maintained and enhanced through adequate federal funding to enable a fair, equitable delivery of services to those paying for and using the system. This requires stability in the Federal-aid Highway Program.

The report outlines the steady depletion of the Highway Trust Fund, and states that authorizations at the 1986 level of $15.5 billion could not be fully funded after 1989 under current policy. The report also points out that given the condition of the Highway Trust Fund and currently planned spending, there will be no bonus of excess funds when the Interstate System construction is completed.

Rather than the current practice of spreading limited federal funding inadequately among more and often conflicting demands, the report favors a program to concentrate federal resources toward those project requirements which are of truly national importance.

A System of Highways of National Significance is recommended, to be comprised of the Interstate and Primary Systems, plus bridges on all current federal-aid highway systems, to be permanently funded from existing Federal Highway Trust Fund revenues.

The report states that continued federal funding is also required to assist in meeting the substantial needs of state and local highways. A voluntary block grant to states is recommended for a Program of Highways of State and Local Interest, to be comprised of the Secondary and Urban systems, off system-bridges and highway safety other than construction.

A copy of the report is enclosed for AASHTO Policy Committee members and additional copies are available from AASHTO headquarters at a cost of $4 each for single copies, $3.25 each for 6-25 copies and $3 each for 26 or more copies.

AASHTO is a national public-sector organization founded in 1914 comprised of the 52 state highway and transportation agencies, including the District of Columbia and Puerto Rico. The association works to develop and improve the construction, operation and maintenance of a national transportation system.

AASHTO REPORT

A New Focus for America's Highways:

Recommendations on the Federal-Aid Highway Program

April, 1985

This AASHTO Report contains 45 recommendations concerning the future of the Federal-aid Highway Program. These 45 recommendations underwent balloting by all 52 AASHTO member departments, as required for setting association policy. On April 30, 1985, it was declared that all recommendations had received the necessary two-thirds favorable vote of the 52 departments, and accordingly, they are official AASHTO policy.

The AASHTO Report itself discusses and analyzes the Federal-aid Highway Program, and provides background for the 45 recommendations. It is intended to be used by AASHTO and others when considering setting highway policy, and was accepted by the AASHTO Policy Committee on February 22, 1985.

FOREWORD

This report was prepared by the AASHTO Task Force on Future Directions for the Federal-aid Highway Program, chaired by Fred Miller of Oregon. Members of the Task Force included Leo Trombatore, California; Paul N. Pappas, Florida; Darrell V. Manning, Idaho; John B. Kemp, Kansas; John R. Tabb, Mississippi; Robert N. Hunter, Missouri; James L. Larocca, New York; Thomas D. Larson, Pennsylvania; W. Edward Wood, Rhode Island; Robert E. Farris, Tennessee; Mark G. Goode, Texas; and Lowell B. Jackson, Wisconsin.

The Task Force was established by AASHTO President William Ordway in June, 1984 and charged with conducting a review of the Federal-aid highway program, and developing recommendations for its future. As part of its consideration the Task Force gathered comments from a number of highway interest organizations and from the Federal Highway Administration. Comments were also received from AASHTO member departments and considered in the preparation of the final report. Throughout its existence the Task Force was assisted by a number of planners and other technical advisers who constituted an Advisory Committee. A list of the members of that Advisory Committee is included in Appendix B.

This AASHTO Report contains 45 recommendations concerning the future of the Federal-aid Highway Program. These 45 recommendations underwent balloting by all 52 AASHTO member departments, as required for setting association policy. On April 30, 1985, it was declared that all recommendations had received the necessary two-thirds favorable vote of the 52 departments, and accordingly, they are official AASHTO policy.

The AASHTO Report itself discusses and analyzes the Federal-aid Highway Program, and provides background for the 45 recommendations. It is intended to be used by AASHTO and others when considering setting highway policy, and was accepted by the AASHTO Policy Committee on February 22, 1985.

EXECUTIVE SUMMARY

The United States enjoys the benefits of a successful federal-state partnership in its highway program. Much of the success of the program has been due to orderly programming of highway improvements by states. This is made possible through multi-year authorizations and state-by-state funding apportionments made sufficiently in advance so that construction contracts can be advertised, bid and awarded in a cost-effective manner.

Also, construction of the Interstate Highway System for the past 30 years has had a unifying effect among states. Now, as completion of the Interstate System draws near, an opportunity exists to make a systematic transition and redefine the federal role in national highway programs.

This transition challenges our ability to sustain the unity and adequate funding capacity that has been so beneficial in the past. At the same time we must avoid the irregular and unpredictable release of federal highway funds, which has become a severe problem recently.

For our nation's continued economic growth and for the achievement of the personal mobility Americans want, the federal-aid highway program must remain responsive in helping to meet both current and future highway transportation needs.

The American Association of State Highway and Transportation Officials (AASHTO) has a long history of dedication to building and maintaining safe, efficient transportation facilities. The organization has developed many technical and policy documents over the years, including the comprehensive highway policy statement, "A Program for America's Highways in the 80's."

This document updates that effort, but does not include discussion of several topics which it did include. Though some changes will be recommended, the basic beliefs of AASHTO member states about our highway program remain much the same:

—The nation's highways must be preserved; accelerating deterioration should not be tolerated. In areas experiencing population growth, provisions should be made to adequately accommodate it.

—A federal program of aid to states for highways of national significance and for state and local programs is required to assure that highway demands are met.

—The processes involved in conducting a national highway program must be simplified to help ensure an efficient, timely use of available funding.

—The stability of state highway programs must be maintained and enhanced through adequate federal funding to enable fair, equitable delivery of services to those paying for and using the system. This requires stability in the Federal-aid Highway Program.

REPORT HIGHLIGHTS

- AASHTO member states estimate that total highway investment requirements from all sources, federal, state and local, on the present Federal Aid System would be between $26 billion and $30 billion per year from 1987 through 1995. Those figures are conservative and represent only a minimum of identifiable requirements. Many factors will contribute to a growing demand for highway investments.
- Projections of Federal Highway Trust Fund revenue indicate that if Congress should act to provide new highway authorizations for 1987 and beyond, authorizations at the present 1986 level of $15.5 billion cannot be fully funded after 1989. There will be no bonus of excess funds when Interstate System construction is completed.
- State and local governments have sought solutions to the imbalance between requirements and revenues in two major ways: cutting costs through management efficiencies, and raising user fees and other revenues.
- The Interstate Highway System should be completed by 1990. A final Interstate Cost Estimate should be adopted, adjusted, and administered by the Federal Highway Administration. Interstate System completion funds should be exempt from obligation limitations.
- A System of Highways of National Significance should be established, to be comprised of the Interstate and Primary systems, plus bridges on all current federal aid highway systems, to be permanently funded from existing Federal Highway Trust Fund revenues.
- A continued federal role is recommended for highway safety construction, highways on federal lands, emergency relief, and 85% Minimum Allocation.
- Continued federal funding is also required to assist in meeting the substantial needs of state and local highways. A voluntary block grant to states is recommended for a Program of Highways of State and Local Interest, to be comprised of the Secondary and Urban systems, off-system bridges, and highway safety other than construction.
- Rather than the current practice of spreading limited federal funding inadequately among more and often conflicting demands, this report favors a program to concentrate federal resources toward those project requirements which are of truly national importance. While AASHTO supports full funding for the current Federal Aid System categories, anticipated federal revenues cannot, and should not, be expected to meet all the fund requirements. Should Congress wish to fully fund the traditional program categories, they should consider new and additional highway user fees to accomplish that goal.
- To provide permanent federal support to the highway program and to enable a stable and predictable highway program, the Federal Highway Trust Fund should be extended indefinitely and obligation limitations eliminated.

SUMMARY OF RECOMMENDATIONS

The following recommendations are organized and numbered according to the report chapter in which they are presented.

System of Highways of National Significance—

5-1. A System of Highways of National Significance should be recognized to include the Interstate System, Primary System and bridges on all current federal-aid systems.

5-2. A study should be conducted to analyze the proposed System of Highways of National Significance to better rationalize its composition and determine how federal-aid funds should be apportioned in a fair and equitable manner to all states.

5-3. The Federal Highway Trust Fund should be extended indefinitely to provide permanent, predictable and adequate funding for rehabilitation, restoration, reconstruction and resurfacing (4R) of the proposed System of Highways of National Significance to add capacity to that system, and to construct such new roads as may be required.

5-4. Users of the nation's highways should pay their proportionate share for the construction and preservation of those facilities used. Consideration of any future highway user fee changes should be based on this philosophy of equity and should be consistent with findings of the Federal Cost Allocation Study, as supported by AASHTO.

The Interstate Program

5-5. The currently defined Interstate Highway System should be completed by 1990 with no further expansion or substitution withdrawals. Authorizations should be set at levels to accomplish this national goal, at current match ratios, with states permitted to use less than the maximum ratio at their option.

5-6. The $300 million annual discretionary fund should be retained for completion, supplemented by lapsed Interstate apportionments.

5-7. States should be permitted to transfer and borrow Interstate 4R funds for Interstate System completion projects at their discretion.

5-8. States should be granted time extensions on an individual case basis for use of final Interstate System completion apportionments if they are demonstrating active progress toward completion, but are delayed by physical or external factors, such as court injunctions.

5-9. A final Interstate Cost Estimate, developed, adjusted, and administered by the Federal Highway Administration, should be adopted to assure all appropriate and necessary projects are under contract for completion of the Interstate Highway System by 1990.

5-10. All Interstate funds used for completion, whether new or previously apportioned, should be exempt from any obligation limitations.

5-11. The 1/2 percent minimum apportionment to all states for Interstate System completion should be continued, with preference in use of those funds for Interstate 4R work.

5-12. Interstate highway substitution authorizations should be set at levels to permit completion by 1990. States should be permitted the flexibility to change their program concepts, but not increase costs. It must be emphasized that only highway projects would be eligible for use of these funds.

5-13. The allocation of 25 percent of the annual authorizations for highway substitution projects on a discretionary basis, at an 85-15 match, should be continued.

5-14. A final Interstate Substitute Cost Estimate, developed, adjusted, and administered by the Federal Highway Administration, should be adopted to assure all appropriate and necessary projects are under contract for completion by 1990.

5-15. The Interstate 4R program should be continued essentially as it now exists, with authorizations adequate to retain efficient, safe and reliable service for the Interstate System. States should be permitted to use less than the 90% federal match share at their option.

The Primary Program

5-16. The Primary Highway System program should be continued and be included as a part of the System of Highways of National Significance.

5-17. Funding for the Primary System program should include a maximum federal share of 80 percent, but states should be permitted to use less than the maximum at their option.

The Bridge Program

5-18. The existing Bridge Replacement and Rehabilitation program for bridges on federal-aid highway systems should be continued.

5-19. The discretionary bridge program should be continued and increased from $200 million to $300 million per year.

5-20. Funding for the bridge program should include a maximum federal share of 80 percent, but states should be permitted to use less than the maximum at their option.

Other Programs

5-21. Categorical programs addressing highway safety construction, federal lands highways and emergency relief should be continued to address unique highway requirements.

5-22. The 85% Minimum Allocation should be retained as a permanent program. The calculation of the allocation should be determined by Federal Highway Trust Fund revenues generated by product use and highway use within the borders of each state. These steps are necessary to assure a reasonable level of equity between each state's contributions to and receipts from the Highway Trust Fund.

A Program of Highways of State and Local Interest—

6-23. A voluntary, state-administered block grant Program of Highways of State and Local Interest should be established for projects on the current Federal-aid Secondary and Urban Systems, off-system bridges, and highway safety other than construction. States would have the option of including prior unobligated fund balances in the block grant categories.

6-24. Under the Program of Highways of State and Local Interest, federal requirements and standards should be eliminated for project development procedures, design standards, environmental assessment, disadvantaged business enterprises, and other mandates. In such areas, state and local requirements should govern.

6-25. Funding for the Program of Highways of State and Local Interest should include a maximum federal match of 75 percent, but states should be permitted to use less than the maximum at their option. States not electing the block grant would have match ratio maximums at the same level as if under the block grant, but would be permitted to use less than the maximum at their option.

6-26. Provisions of the block grant program should permit a transfer of up to 25 percent of its funds to projects on the System of Highways of National Significance.

6-27. Urbanized areas of 200,000 population or more should receive a portion of their state's block grant funds.

6-28. State and local governments should monitor highway investment requirements not met by federal aid and set state and local user tax rates to meet funding requirements.

Funding Alternatives—

7-29. All fuel tax exemptions for gasohol, methanol and special fuels should be eliminated during 1985.

7-30. If federal policy retains fuel tax exemption subsidies, they should be financed from general revenues, not the Federal Highway Trust Fund.

7-31. A federal fuel tax index based on fuel consumption changes and cost index changes should be implemented to ensure a constant purchasing power of current tax revenues.

7-32. State transportation agencies should be permitted to develop toll highways in conjunction with use of federal funds on federally aided projects, as they are now permitted to do with regard to toll bridges and toll tunnels.

7-33. The Secretary of Transportation should be granted the authority to allow the imposition of tolls on federal-aid highways and bridges where uniquely high maintenance, construction or reconstruction costs exist. There should be no obligation to repay Federal-aid highway funds which may have been expended on the facility.

7-34. A federal weight-distance tax should be considered by Congress as a substitute for the heavy vehicle use tax and all other federal user fees on trucks except for a federal fuel tax levied at the same rate as on all other vehicle classes. The truck tax structure should be designed to yield revenues at least equal to the existing structure of taxes and to achieve as much equity as possible both between and within different truck classes.

General Recommendations—

8-35. No obligation limitations should be placed on any federal highway programs. This is especially critical to the completion of the Interstate System by 1990.

8-36. Federal-aid highway programs should be funded regularly, to the full amounts authorized, in a timely and predictable manner.

8-37. Any mechanism that restricts the rate of federal-aid obligations incurred within a fiscal year by the states, such as the current 25 percent national first quarter restriction, should be eliminated.

8-38. Greater flexibility should be extended to the states in their use of federal-aid highway funds including: increasing the percentage of funds that can be transferred among categories, allowing transfers among more programs, and consolidating federal programs. Transfers of Interstate completion funds by states with incomplete Interstate Systems should be prohibited.

8-39. The mandatory earmarking of discretionary funds by Congress should be eliminated.

8-40. The findings and recommendations included in the AASHTO report "Federal Mandates Contributing to Excess Project Costs," should be further implemented, and additional streamlining activities pursued.

8-41. Incentives should be developed where needed to encourage states to comply with federal policies, and federal sanctions should be eliminated or reduced in number.

8-42. Special demonstration projects outside of normal authorizations should be eliminated. The ongoing drain of these projects on the Highway Trust Fund is significant and should not continue.

8-43. Highway legislative proposals should be fully reviewed and analyzed for cost impact on states before being enacted or implemented. If such proposals are implemented, adequate funding should be provided to the states to cover the additional costs incurred as a result of federal action.

8-44. Information on highway use by commercial vehicles should continually be collected and changes made in highway user fees as required to maintain equity among users.

8-45. Legislation should be enacted approving the use of 1/4 of 1% of apportioned federal-aid highway funds for the Strategic Highway Research Program, and continuation of the existing highway research programs should be supported.

PART I—

CHAPTER 1

HISTORY AND BACKGROUND OF FEDERAL-AID HIGHWAY PROGRAMS

Since its inception in 1916, the Federal Aid Highway Program has been based on the philosophy of providing federal assistance to state-administered highway programs. A nationwide network of surfaced roads was a national priority, and states lacked financial and technical resources to provide a national highway system, state highway systems, and local road systems without coordination and assistance.

With passage of the Federal-aid Highway Act of 1921, the federal-state partnership of today began to take shape. The purpose of the Act was to use federal aid to provide a highway network that would connect the nation's principal cities and towns and tie in with state and local highways, roads, and streets. This intercity highway network, which became the Primary System, required state-to-state continuity and uniformity in design and construction standards. During the 1920's and 30's the nationwide effort to complete the new Primary System nurtured and reinforced the developing federal and state partnership.

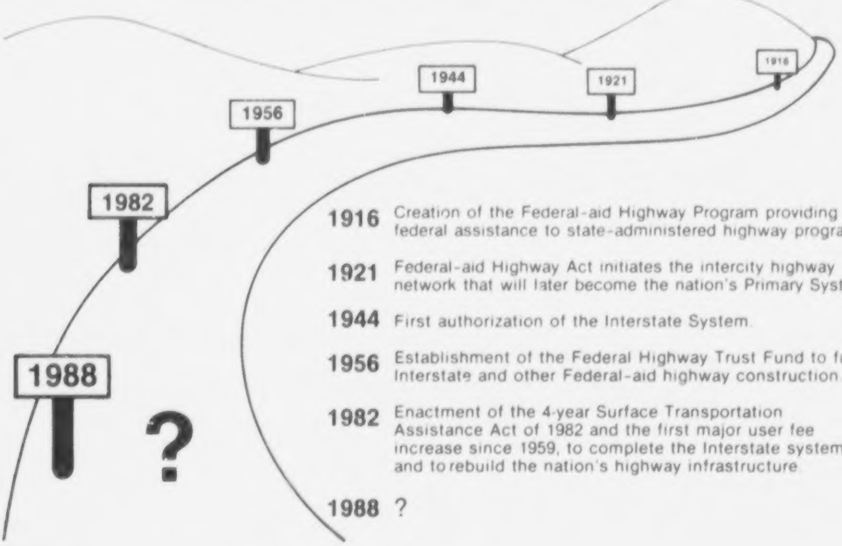
From that beginning, other major federal initiatives evolved. A national system of feeder roads was needed to get farm products to market, and the Secondary System was born. A growing concern for urban roads, in turn, led to Urban Extensions of the Primary System.

By the 1940's, travel had increased to the point where congestion and higher speeds from improved automobiles were bringing about serious accident problems, increasing concerns for the safety of the motorist. Geometric standards for enhanced safety were developed and a uniform accident reporting system was begun.

Perhaps the most significant milestone came in the 1950's when attention turned to interstate commerce and defense. In 1956, the Federal Highway Trust Fund was established, and that reinforced the national policy to complete the Interstate System, which had been originally authorized in 1944.

During the 1960's, the Federal Aid Highway Safety Act was passed outlining a series of safety standards addressing the vehicle as well as the highway facility. The American Association of

Mileposts of the Federal-aid Highway Program



1916 Creation of the Federal-aid Highway Program providing federal assistance to state-administered highway programs.

1921 Federal-aid Highway Act initiates the intercity highway network that will later become the nation's Primary System.

1944 First authorization of the Interstate System.

1956 Establishment of the Federal Highway Trust Fund to fund Interstate and other Federal-aid highway construction.

1982 Enactment of the 4-year Surface Transportation Assistance Act of 1982 and the first major user fee increase since 1959, to complete the Interstate system and to rebuild the nation's highway infrastructure.

1988 ?

State Highway and Transportation Officials responded to this nationwide concern with the development of operational guides for the enhancement of safety along the highway system.

Highway designers recognized nationwide concerns over accidents, and the need to provide greater safety. During this time, standards for providing a more forgiving roadside, largely clear of hazardous objects, were developed and implemented. Provisions of the forgiving roadside, along with construction of the Interstate System, continued to provide greater and safer mobility for automobile travel.

Over the years the Federal-aid Highway Program has produced many benefits:

- A federal-state partnership was created which, withstanding the test of 70 years, has served as a model for government programs by demonstrating an effective, working example of a federally assisted, state-administered program.
- Professional expertise created in state highway departments enabled the states to plan, develop, and construct the finest highway system in the world.
- A federal-state partnership to conduct highway research was created which has provided enormous advances in highway technology of all types over the past half century.
- Personal mobility was substantially enhanced.
- Defense, a key national issue, was addressed from a transportation perspective.
- The highway system assisted the growth of the national economy.
- Highway construction generated employment.
- Highways provided a cost-effective choice for interstate travel and transport and made possible today's motor carrier industry.
- User tax bases were firmly established and, until the fuel problems of the 1970's, provided stable, growing revenues.

"A PROGRAM FOR AMERICA'S HIGHWAYS IN THE 80'S"

The late 1970's presented a critical juncture for America's economic future. The nation's transportation system and the programs supporting it were confronted with a deepening recession, tied to increasingly high inflation.

The Federal-aid Highway Program and the federal-state partnership that had succeeded so well for more than half a century faced an uncertain future. The program's financial foundation, the Federal Highway Trust Fund, was slated to expire in 1984. Spiraling highway construction costs had reduced the Fund's effectiveness, and its major revenue source, the gallonage-based gasoline tax, was being greatly affected by increasingly fuel-efficient vehicles. The unfinished Interstate System lagged behind schedule, with the cost of completion rising faster than projects could be contracted.

Portions of the Interstate System had served beyond their design lives and were deteriorating rapidly. Major rehabilitation and reconstruction were required to improve safety and to restore the Interstate System to intended service levels. In addition, conditions and service levels on the nation's Primary System were rapidly deteriorating. Many of the nation's bridges had reached an age where their structural capacity and functional design were raising concerns.

In response to this dilemma, AASHTO reassessed national highway needs and recommended a program to guide the federal-state partnership through the 1980's. The policies and philosophies embodied in "A Program for America's Highways in the 80's" represented a consensus of the state transportation officials and called for increased user fees to support a permanent and stable Federal Highway Trust Fund. Program restructuring was recommended to reduce and consolidate funding categories so as to focus on programs of national significance. A major commitment to complete and preserve the Interstate System was urged.

"A Program for America's Highways in the 80's" provided a state-level perspective by AASHTO of highway transportation programs, and the document had a positive impact on the Surface Transportation Assistance Act of 1982.

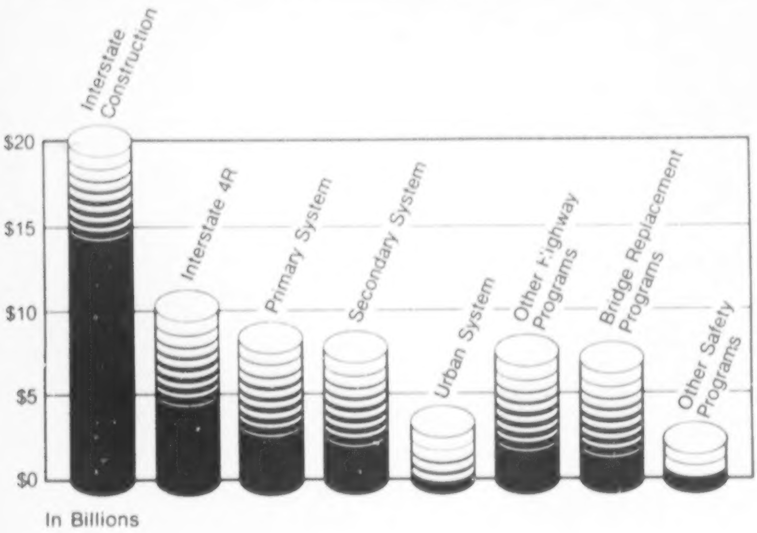
THE SURFACE TRANSPORTATION ASSISTANCE ACT OF 1982

The Surface Transportation Assistance Act of 1982 (STAA) was generally recognized as landmark highway legislation. It reaffirmed the national commitment to the Interstate System through increased authorizations and restatement of the 1990 completion date. To preserve the existing Interstate System, a tenfold increase was provided in Interstate 4R authorizations for system-wide rehabilitation. Rehabilitation of non-freeway roads was encouraged in a manner that enhances highway safety and extends the service life of the highway.

While the main emphasis of the STAA was on the Interstate System, it also recognized increasing bridge needs and worsening deterioration on the Primary and Secondary Systems. Added flexibility was provided through increased transferability among program categories, reduction in the number of categories, and fewer categorical restrictions.

The concepts of user financing and equity were reaffirmed. The STAA extended the Federal Highway Trust Fund, while new and revised user taxes promised continued program stability over the next several years. A five-cent-per-gallon tax

Authorizations of the Surface Transportation Assistance Act of 1982 ($ Billions)



increase on fuel was coupled with modified truck taxes to provide a 50 percent increase in the Federal-aid Highway Program. One cent of the five-cent increase was dedicated for transit capital grants.

The 50 percent increase in federal highway funding, coming at a time when millions of Americans were feeling the strain of economic recession, had a positive effect on the nation's recovery. During the first year of the STAA, approximately $1 billion per month was put to work by states, resulting in significant progress in preservation, improvement and safety enhancement of America's highways. Additionally, the STAA assisted many states in their ongoing efforts to obtain revenue increases at the state level. Significant increases in state highway user fees were required to match greater amounts of federal funds, but also to more adequately respond to increasing requirements both on and off the federal aid system.

THE FEDERAL HIGHWAY PROGRAM TODAY

While the STAA moved strongly to help meet needs and demands of the nation's highways, the Act was not all-encompassing. For example, deteriorating highways and bridges that were built over the decades presented too large a problem to be solved during a four-year period. The 1982 STAA also led to some problems for the highway program:

- Longer and wider trucks were allowed on a designated network of main highways, in response to the demands of commerce. However, segments of the existing highway system are inadequate to accommodate the vehicles safely, and will require extensive ramp reconstruction and lane widening in many states to correct. Costs of these improvements have not been calculated, but are anticipated to be substantial.
- Heavy trucks were allowed on more miles of highway to permit more economical movement of freight, but this increased heavy truck traffic will accelerate the deterioration of these highways.
- Federal tax exemptions for gasohol and certain other fuels were continued, denying the Federal Highway Trust Fund of these potential revenues. This continuation also diminished the stature of the federal government as an effective highway user fee collector, and weakened the user fee concept.
- No significant increases in authorizations were enacted for Secondary and Urban Systems. This further removed the federal pres-

ence in addressing rural and urban highway needs, and instead placed the funding responsibility closer to state and local governments. Some three million miles of state and local roads are not a part of any federal-aid highway system.

Further action must be taken to reverse the trend of deteriorating highway facilities. Actions taken by states and local governments over the past few years to increase highway revenues have been of significant benefit. The STAA was a positive step, and subsequent Acts at the federal level should make further progress toward improving safety and protecting this country's national highway investment.

Our highways and bridges serve too critical a purpose to be allowed to deteriorate to unsatisfactory, unsafe service levels. The best engineering management techniques must be employed to assure maximum benefit from available revenues, and the procedures and regulations surrounding the Federal-aid Highway Program should be reviewed and revised to help make this possible. An appropriate balance of federal, state, and local commitment must be achieved to meet the diverse highway needs of national, state and local importance. Revenues from each level of government must be used to their best advantage to complement each other in providing an effective solution to our highway problems.

Safety must remain a vital part of the nation's highway program. Research must address the needs of the highway system to accommodate the increasing traffic mix of smaller, lighter automobiles alongside the heavier, longer, and wider commercial vehicles. Also, as the nation grows, vehicle miles of travel will increase. Efforts must continue to identify and resolve unsafe operational characteristics of roadways.

Permanent, on-going highway rehabilitation and restoration strategies are being developed by states. Their implementation will require programs and funding that are stable and strong, and that go beyond the near-future of 1986, if we are to assure that America's highways will continue to contribute to the nation's prosperity and to the public's mobility.

AN OVERVIEW OF THE FUTURE

The history and background of our highway system point toward its future direction, and that perspective highlights two basic facts.

—Highway requirements at all levels of government continue to increase, and will require us to continually review and address the adequacy of funding.

—The American highway system is composed of two basic networks, in addition to local roads and streets: those highways of importance nationally that serve to interconnect our states and major population centers; and those highways of primary importance to state and local governments that interconnect smaller cities and feed the highways of national importance, and which serve our farms, factories and the growing mobility needs of metropolitan areas.

This report accepts these facts and offers a new focus on our Federal-aid Highway Program that is based upon them. It also builds on the major issues in "A Program For America's Highways in the '80's", but does not cover several subjects such as Davis-Bacon labor provisions and treatment of the Windfall Profits Tax. This report should be considered in connection with other current policies of the association which have not been superseded. Looking at the Federal-aid highway system, "A Program For America's Highways in the '80's" established as programmatic priorities the following:

—Completion of the National Systems of Interstate and Defense Highways;

—Establishment of an Interstate 4R program of adequate scope;

—The bridge program;

—The Primary System; and

—Urban and Rural Programs.

This report reaffirms these priorities.

CHAPTER 2

REQUIRED HIGHWAY INVESTMENTS

America's highways are and will remain the backbone of our transportation system and the key to a growing economy. They are basic to our American way of life, and provide us with freedom of movement to reach our jobs, our schools, our churches and the places where we recreate. Highways are and should be the concern of every American. For these reasons, there can be no lessening of commitment to maintaining and improving our highway system.

While an effort has been made, with the passage of the STAA of 1982 and action in nearly all state legislatures over the past few years to increase highway revenues, to meet the continuing highway investment requirements of the Federal-aid Highway System the STAA provided only a minimum level of the total highway investment required. The funding provided was of benefit primarily to the Interstate system and to bridges. There remain substantial unmet requirements, particularly on the Primary System, for which increased funding is required.

Many factors contribute to a growing requirement for highway investments:

—As population shifts occur throughout the nation, new growth in many states requires a substantial capital investment to accommodate transportation between states and the major population centers.
—Population and employment shifts within growing metropolitan areas of our states is creating new mobility needs that are frequently unsuited to transit solutions, and which will require additional highway capacity.
—The creation of a nationally designed system for the operation of longer and wider trucks requires significant highway improvements such as lane widening, approach modification, and intersection modification.
—Increased highway use by heavy vehicles will require additional investments to maintain a safe and adequate level of service for existing highways.

The scope of highway investment requirements can only partially be identified in this report, which concentrates on the existing Federal-aid Highway System for which data is available. Some costs, such as the added investment to accommodate larger trucks and the costs of future needed highways, are as yet unknown.

The figures presented in this chapter are conservative and represent a minimum of identifiable requirements. While the full magnitude of highway investment requirements remains to be seen, local, state and federal governments must prepare now to meet known responsibilities; and continue planning to address the other responsibilities to come.

ASSESSING THE REQUIRED LEVEL OF HIGHWAY INVESTMENTS

Many factors are involved in determining prudent, timely and cost-effective highway investment levels. Among those factors are:

- An analysis of current and future pavement and bridge conditions;
- An assessment of what level of service and ride quality is acceptable to the traveling public;
- A determination of what is required to provide and improve a safe system; and
- A projection of available revenues.

Meeting these factors, in light of pavement and bridge conditions, requires professional experience and judgment. This task becomes particularly critical when revenues are insufficient to meet all requirements.

The highway investment requirements shown on Table I were developed from data obtained from the Federal Highway Administration (FHWA), which drew on information supplied by the states. The data have been analyzed and adjusted by state highway professionals and represent a consensus by AASHTO on requirements for the existing Federal-aid Highway System from 1987 through 1995. Table I includes an adjustment for inflation, at 4 percent per year.

Resources required to complete the Interstate System by 1990 are determined by the most recent Interstate Cost Estimate (ICE). Resources required for Interstate 4R, Primary, Secondary and Urban Systems are determined by data gathered through the Highway Performance Monitoring System (HPMS), and include a 2.8 percent per year growth in vehicle miles traveled (VMT) through the year 2000. Minimum resources required to address both existing and accruing bridge deficiencies were based on state data gathered through the National Bridge Inventory and Inspection Program.

Requirements to restore and preserve the existing Interstate System account for all backlog and accruing deficiencies, plus reconstruction requirements from the 1981 ICE.

Requirements to preserve a 1980 level of performance and condition on the Primary, Secondary and Urban Systems do not include the cost of new construction on new alignments, but do reflect additional capacity requirements that may be achieved by widening existing alignments to the extent feasible.

The annual bridge requirements represent funding to retire the backlog, both on the Federal-aid System and off-system, by the year 2000, and to address continually accruing deficiencies through 2000.

The current backlog requirements for on-system and off-system bridges is approximately $45 billion.

Categorical safety requirements are based as an extension of 1986 authorizations for Hazard Elimination at $200 million per year, and Rail-Highway Crossings at $190 million per year.

The highway requirements as stated in Table I are comparable with the findings in "A Program For America's Highways in the '80's", which were widely accepted by knowledgeable persons in the highway field.

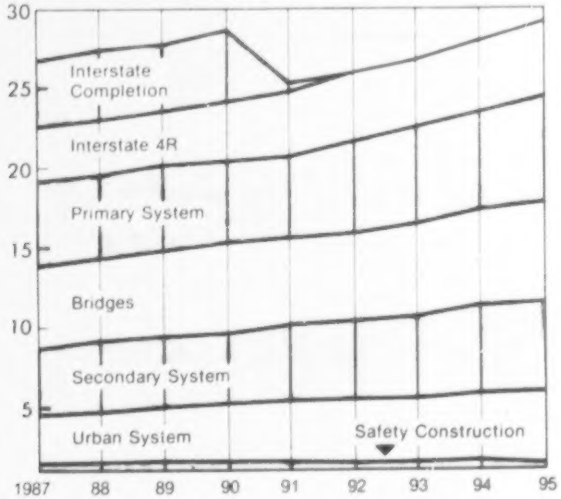
Appendix I of the 1980 report found an estimated total highway investment requirement of $154.26 billion for the period 1987 through 1991, while in Table I the total requirements for the same period total $136.3 billion. Given that the 1980 report utilized an inflation factor of 10% whereas this report estimates inflation at 4%, there is consistency between this report and the 1980 document.

Table I represents the total estimated highway investments that will be required at the federal, state and local level to attain the service levels just described for the Federal-aid Highway System, and indicates that over the nine-year period from 1987 through 1995 the yearly required investment will be between $26 billion and $30 billion per year. These estimates are conservative, because many states believe that the HPMS data used to generate them has not adequately recognized required improvements on the Interstate and Primary Systems to provide ride quality and service levels that are acceptable to the traveling public. As a result, the figures in Table I do not indicate the full magnitude of resources which may be required for the existing Federal-aid Highway System.

Table II represents the full federal share of the identified requirements based on the current federal role in each of these program categories. Current match ratios for each category were used to determine the federal shares. Additionally, at the bottom of Table II a projection of Federal Highway Trust Fund income is made to illustrate the trend and gap between what is required and what is accruing to the Trust Fund. This assumes the Trust Fund is extended.

As stated previously, the required highway in-

Estimated Total Required Highway Investments
Federal, State and Local (\$ Billions)



Note: Inflation included at 4% per year

Source: Federal Highway Administration data and information

TABLE I

ESTIMATED TOTAL REQUIRED HIGHWAY INVESTMENTS (BILLIONS)

	FEDERAL, STATE, AND LOCAL FUNDS REQUIRED								
	1987	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*
INTERSTATE COMP	$4.3	$4.5	$4.5	$4.6	$ .6	—	—	—	—
INTERSTATE 4R	3.4	3.5	3.6	3.8	3.9	4.1	4.2	4.4	4.6
PRIMARY SYSTEM	5.0	5.2	5.4	5.6	5.8	6.1	6.3	6.5	6.8
BRIDGES	5.2	5.4	5.7	5.9	6.1	6.4	6.6	6.8	7.1
SECONDARY SYSTEM	4.5	4.7	4.9	5.1	5.3	5.5	5.7	6.0	6.2
URBAN SYSTEM	3.2	3.4	3.5	3.6	3.8	3.9	4.1	4.3	4.4
SAFETY CONST	.4	.4	.5	.5	.5	.5	.5	.6	.6
TOTAL	26.0	27.1	28.1	29.1	26.0	26.5	27.4	28.6	29.7

Note: Inflation included at 4% per year

Source: Federal Highway Administration data and information

TABLE II

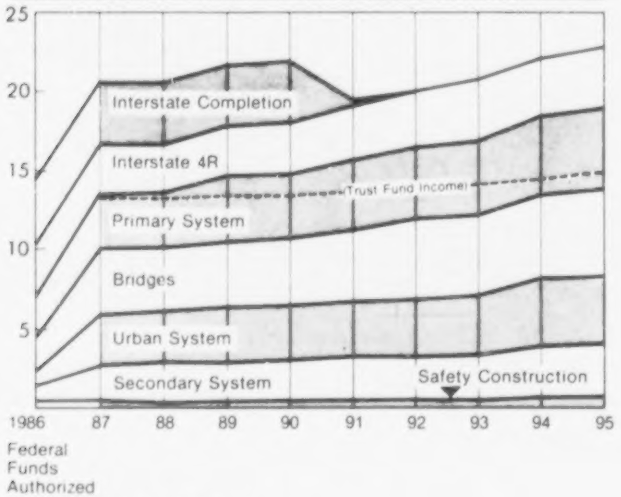
ESTIMATED TOTAL REQUIRED FEDERAL INVESTMENTS (BILLIONS)

	FED. FUNDS AUTHORIZED	*ESTIMATED REQUIRED FUTURE FEDERAL AUTHORIZATIONS*								
	1986	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*
INTERSTATE COMP	$4.0	$3.9	$4.0	$4.0	$4.1	$ .5	—	—	—	—
INTERSTATE 4R	3.2	3.1	3.2	3.2	3.4	3.5	3.7	3.8	4.0	4.1
PRIMARY SYSTEM	2.5	3.8	3.9	4.1	4.2	4.4	4.6	4.7	4.9	5.1
BRIDGES	2.1	4.2	4.3	4.6	4.7	4.9	5.1	5.3	5.4	5.7
SECONDARY SYSTEM	.7	3.4	3.5	3.7	3.8	4.0	4.1	4.3	4.5	4.7
URBAN SYSTEM	.8	2.4	2.6	2.6	2.7	2.9	2.9	3.1	3.2	3.3
SAFETY CONST	.4	.4	.3	.4	.4	.4	.4	.4	.6	.6
TOTAL	13.7	21.2	21.9	22.6	23.3	20.5	20.8	21.6	22.6	23.5
PROJECTED FEDERAL HIGHWAY TRUST FUND INCOME		13.2	13.2	13.3	13.3	13.5	13.7	14.1	14.4	14.8

Note: In addition to the 1986 authorized amounts shown, approximately $1.8 billion is authorized for Interstate Substitution, Federal Lands Highways, Emergency Relief, 85% Minimum Allocation, and Demonstration Projects

Source: Federal Highway Administration data and information

Estimated Total Required Federal Investments ($ Billions)



Note: Inflation included at 4% per year

Source: Federal Highway Administration data and information

vestments represented in Tables I and II also do not include resource demands created by the 1982 Act, which established a nationally designated system for the operation of motor trucks, and mandated that truck-trailer combinations, including 48-foot-long semi-trailers and trucks up to 102 inches in width, be allowed by all states on this designated system.

In order to safely accommodate the longer and wider vehicles, the designated truck route system in many states is in need of significant geometric and other improvements, including lane widening, ramp reconstruction and approach road modification. The total cost resulting from this mandate is not yet known, but states are now completing a review of their portion of the designated system to calculate the cost.

Information thus far reported to AASHTO's Highway Subcommittee on Design indicates that where the highway system is of recent completion and few urban areas are present, some states will require only minimal improvements or modifications. In many other states estimates in the $40 million to $100 million range have been developed. In Texas an estimate of $4.9 billion has been made for completing all necessary highway modifications and improvements to accommodate wider and longer vehicles.

The costs generated by this mandate illustrate that policy decisions affecting the use and design of the highway system can have significant cost implications, which should be evaluated and considered before policy is set. This was not done for the 1982 Act, and as a result, no specific funding has been designated to meet the resource demands generated by this provision of the STAA.

Factors such as growth, population shifts and increased heavy vehicle highway use, among others, will stimulate additional highway investment requirements and revenue demands. Whether sufficient federal, state and local revenues can be generated to fully meet this investment demand is another matter. If full funding is not achievable, then relative federal, state and local priorities must be set and lower levels of acceptable service agreed upon. The nation must then accept the negative impacts insufficient funding will have on highway transportation efficiency, productivity and safety.

CHAPTER 3

FEDERAL REVENUE PROJECTIONS

The previous chapter identified the total capital investment requirements for federal, state and local governments on the Federal-aid Highway System. This chapter evaluates projected federal revenues of the Federal Highway Trust Fund based on current law and user fee exemptions. It also examines the effects on highway revenue of federal policy on fuel tax exemptions and reduced fuel consumption.

Current highway authorizations end in 1986. For purposes of this report, it is believed reasonable to assume that Congress may consider enacting authorizations for 1987 and beyond at the 1986 authorization level of $15.5 billion per year, if not greater, and extending the Highway Trust Fund.

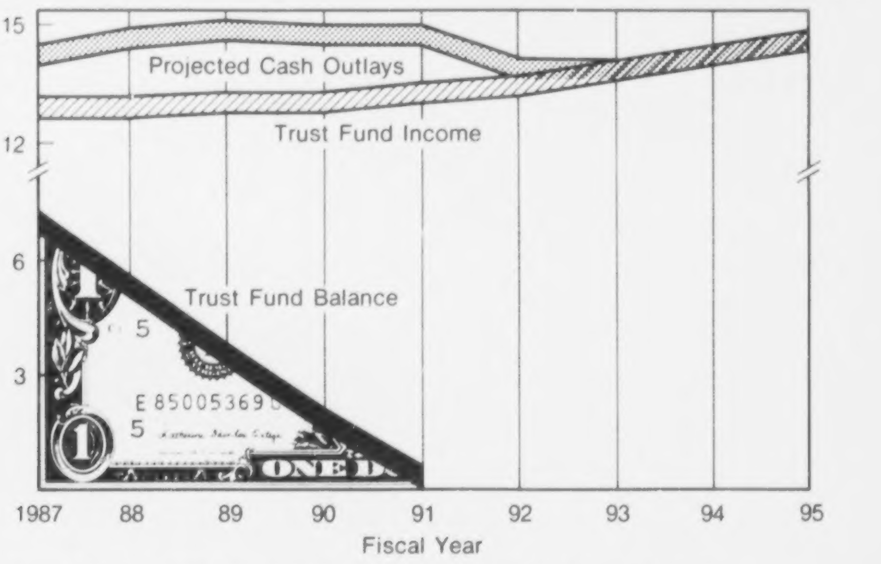
Revenue projections prepared by the Federal Highway Administration and the Congressional Budget Office indicate the Highway Account of the Highway Trust Fund will be insufficient to fully fund an authorization level of $15.5 billion beyond 1989, let alone provide for possible inflation or new programs.

Projections show that cash outlays will substantially exceed Federal Highway Trust Fund income in FY 1987 and succeeding years, steadily diminishing the Trust Fund balance. As shown below in Table III, trust fund income of $13.2 billion in 1987 is appreciably less than the $14.5 billion estimated cash outlay in FY 1987.

Legislation known as the Byrd Amendment is intended to prevent a negative balance in the Highway Trust Fund, by requiring that unfunded authorizations may not exceed two years of revenues to ensure enough liquidating cash in the Trust Fund to make timely payment on all vouchers in the following years. Therefore, if current provisions regarding the Trust Fund continue, total annual apportioned funds would need to be less than the projected $15.5 billion authorization level beginning in 1990 to ensure meeting required cash outlays in the following years and to comply with the Byrd Amendment.

It should be noted the current federal philosophy is that the Federal Highway Trust Fund balance should not reach zero, but instead that a

Federal Highway Trust Fund Projections ($ Billions)



Source: Federal Highway Administration, Congressional Budget Office data and information

TABLE III

FEDERAL HIGHWAY TRUST FUND PROJECTIONS (BILLIONS)

Fiscal Year	*1986 Level Of Authorizations*	*Projected Cash Outlays*	*Trust Fund Income*	*Trust Fund Balance*
1987	$15.5	$14.5	$13.2	$6.7
1988	15.5	14.9	13.2	5.0
1989	15.5	15.1	13.3	3.2
1990	15.5	15.0	13.3	1.5
1991	15.5	15.0	13.5	0.0
1992	15.5	13.7	13.7	0.0
1993	15.5	14.1	14.1	0.0
1994	15.5	14.4	14.4	0.0
1995	15.5	14.8	14.8	0.0

Note: In Table II the authorization of $13.7 billion shown for 1986 represented major Federal-aid System categories but did not include $1.8 billion in authorizations for other federal-aid highway programs of Interstate Substitution, 85% Minimum Allocation, Federal Lands Highways, Emergency Relief, and several demonstration projects.

Source: Federal Highway Administration, Congressional Budget Office data and information.

bottom balance limit of $2-3 billion should be set. If this philosophy continues, then, as can be derived from Table III, authorizations at an annual level of $15.5 billion could not be supported beyond 1988, rather than 1990.

There have been some expectations of a highway fund bonus once the Interstate System is completed and its authorizations for construction are no longer required. This supposed bonus will not occur because in the four years leading up to completion of the Interstate System, Federal Highway Trust Fund cash outlays will exceed income by about $1.6 billion per year. Any expected Interstate System completion bonus will be absorbed by adjustments in the remaining program categories that would be required to contend with this fiscal imbalance, plus any inflation that might occur.

Simply stated, the Federal Highway Trust Fund cannot fully fund 1986 authorization levels beyond 1989, at best.

There are additional factors that weaken existing revenue sources which, to a large extent, are now based on gallons of fuel consumed. Increasingly fuel-efficient vehicles are helping reduce fuel consumption per mile of travel. This trend decreases revenues going to the Federal Highway Trust Fund from gallonage taxes and also decreases revenues being collected by states for their highway funds. The national policy to conserve fuel has been effective for this purpose, but at the same time has reduced the vitality of federal and state highway trust funds.

There are also several special fuels or mixtures, such as ethanol and methanol, that benefit from tax exemptions in order to stimulate production and consumption. These exemptions exist in many states, as well as at the federal level.

While the reduced market prices for tax-exempted fuel may be attractive to the consumer, consumers of such fuels are not paying a fair share for the highways they subsequently use and benefit from. The Federal Highway Trust Fund is not made whole, and the production of tax-exempted fuels is thus subsidized indirectly by all highway users who do pay their fair share of user taxes. The gasohol exemption alone will have cost the Federal Highway Trust Fund an estimated average of $0.7 billion per year through 1995.

National policies for fuel efficiency, conservation and stimulation of production of alternate fuels are well known. What is overlooked in many cases is the impact of these policies on this nation's successful highway program. A strong national highway program cannot survive over an extended period of time if other national policies continue to weaken existing revenue sources and exacerbate an already critical funding situation.

CHAPTER 4

STATE AND LOCAL INITIATIVES AND CONTRIBUTIONS

As welcome as the 1982 federal revenue increases were, it was understood by transportation professionals that the increases would not cure all deterioration problems facing our highways. A significant portion of the overall problem was the responsibility of state and local governments.

A number of efforts by state and local governments were initiated. State and local funding was increased not only to match the additional federal aid, but also in an effort to help meet the total highway investment requirements. Program administration efficiencies were implemented to ensure better use of federal, state and local resources. Attention was directed toward curtailing and reversing fuel tax exemptions that have weakened both federal and state highway funds. This last item was discussed in Chapter 3, and will be covered in more detail in Chapter 7.

All of these measures continue, as state and local governments attempt to meet their responsibility toward providing safe, adequate and efficient highways. Major highway research efforts are currently being planned to help ensure an effective, productive use of funds in the years to come.

STATE AND LOCAL FUNDING

Historically, total expenditures for highways by all levels of government have grown dramatically, as shown in Table IV. Since 1965, total expenditures have grown 6.4 percent per year, from approximately $14 billion to $39 billion. The greatest increase has been in local government expenditures, with almost an 8 percent increase per year. State expenditures account for the second highest increase, 6.3 percent per year, with federal expenditures increasing 5.7 percent per year.

The data presented in Table IV represents the total expenditures made on all highways both on and off the Federal-aid Highway System, and includes maintenance, operations, and capital improvements. The major point of this table is to demonstrate that federal, state and local governments devote substantial financial resources to all our nation's highways, not just the Federal-aid System, and that state and local governments together have by far the greatest share in total highway expenditures.

A major shift in highway program emphasis has occurred as construction decreased while maintenance became more critical to preserving existing facilities. In 1970, capital improvements accounted for 56 percent of our highway expenditures, but in 1982 that share dropped to 44 percent. The requirement to increase maintenance has diverted funds needed for highway construction, compounding the highway funding problem.

INCREASED EFFICIENCY IN PROGRAM ADMINISTRATION

In an effort to use available revenues to their greatest advantage, federal, state and local governments are seeking more efficient methods of

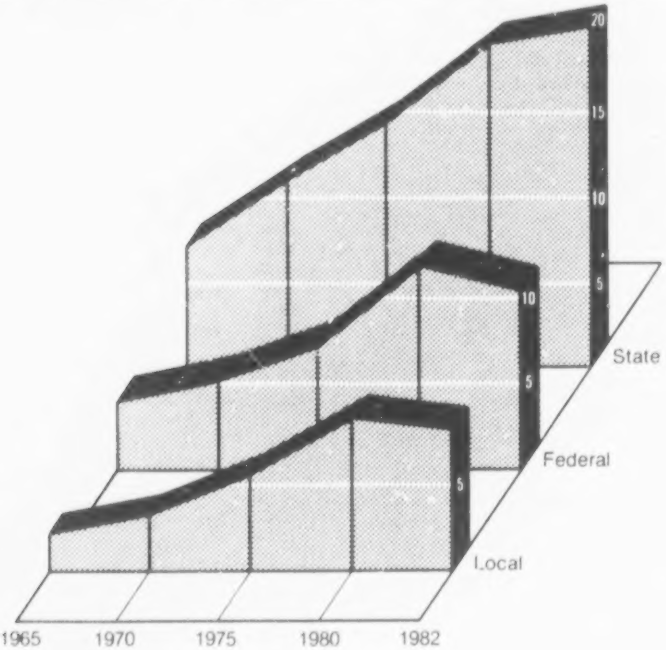
TABLE IV

TOTAL FEDERAL-STATE-LOCAL HIGHWAY EXPENDITURES (BILLIONS)

Year	*Federal*	*State*	*Local*	*Total*
1965	$ 4.1	$ 7.1	$2.3	13.5
1970	5.2	11.0	3.4	19.6
1975	7.2	14.3	5.7	27.2
1980	12.0	19.0	9.0	40.0
1982	10.5	20.0	8.4	38.9
Overall Increase	155%	183%	271%	189%
Per Year	5.7%	6.3%	7.9%	6.4%

Source: Federal Highway Administration Statistics

Total Federal-State-Local Highway Expenditures ($ Billions)



Source: Federal Highway Administration

constructing, operating and maintaining our nation's highways.

During most of the modern highway transportation era, governments concentrated on expanding the highway system. More vehicles traveling more miles required more highway capacity. The growth in vehicle miles also provided an increasing revenue stream that made it possible to cope with the demand for more highways, since motor fuel and other user tax revenues increased proportionately with increasing vehicle miles of travel.

With the 1974 oil embargo, fuel consumption declined, and vehicle fuel efficiencies increased, thus reducing revenues while at the same time construction costs were increasing due to the oil price increase and inflation. It became apparent that greater effort was needed to make available funds do more. Today, reducing expenditures through increased operational and administrative efficiencies is a major thrust of federal, state and local governments in their efforts to expend highway funds in the most cost-effective manner possible. Some of the more significant efficiencies include:

—The use of more efficient management practices and data processing activities have resulted in major staff reductions within State and Federal DOTs. Since 1980, Pennsylvania has increased the level of their maintenance and construction programs by $130 million or 20 percent while achieving a 15 percent reduction in agency staff.

—Use of pavement management systems to extend pavement life. The Arizona DOT has documented an annual savings of $20 million with their pavement management system.

—Utilization of flexible standards for pavement restoration which stretches dollars. Rigid adherence to inappropriate standards has been shown to add 40 percent to such project costs according to the Arizona DOT.

—Utilization of computer-aided design has resulted in a 3:1 increase in productivity for drafting construction plans and map preparation in Texas. The automated system also permits direct transmission of the plans from the field to headquarters eliminating associated delivery time and cost.

—Word processing applications in a single bureau of the Michigan DOT have resulted in significant productivity gains allowing manpower reductions to net annual savings of $250,000.

—The use of an automated drafting system in Michigan has allowed staffing levels to decrease by 115 positions with no loss in productivity.

—Photologging applications in Michigan have saved $250,000 annually in employee salaries, benefits and travel expenses.

—The application of value engineering principles to highway and bridge projects has yielded $10 million in annual savings to the Florida DOT by changing or eliminating items that do not add to the performance, function, or life of a project.

—The use of alternate designs for bridges has permitted increasing bid competition and the use of innovative construction techniques. One example in Florida, the Sunshine Skyway Bridge Main span Replacement, has netted a savings of $36 million.

—Asphalt recycling applications for both new construction and maintenance projects in Florida have yielded estimated project cost savings of $5.6 million over conventional mixes since January, 1980.

—Through application of demand modification, rather than capacity expansion, California supplied mobility for the 1984 Summer Olympics with great success.

Significantly, a major transportation research investment of $150 million over the next five years has begun, seeking innovative solutions and new technologies to transportation problems. The Strategic Highway Research Program now under way under the direction of a Task Force created by AASHTO resulted from the Strategic Transportation Research Study recently completed by the Transportation Research Board. It will assess and recommend solutions in major priority areas such as asphalt and concrete, pavement performance, bridge protection, maintenance and chemical control of ice and snow. This effort is part of the continuing search for better, more innovative techniques in highway transportation, and must be supported by the states and the federal government.

PART II—

CHAPTER 5

SYSTEM OF HIGHWAYS OF NATIONAL SIGNIFICANCE

The Federal-aid Highway Program is at a crossroads, requiring a reevaluation of its purpose. Fragmentation in the program caused by irregular, unpredictable funding, special project funding and highly specialized categories of narrow interest, defeats establishment of the continuing sense of national purpose necessary to sustain support for the Federal-aid Highway Program. A national consensus on a common purpose needs to be established as we move into the future, if the federal program is to survive.

The current Federal Aid Highway System contains 850,000 miles of roadway and serves 80 percent of the total national travel. Because of the predominant nature of these highways in our total system, and their role in the economic well-being of this nation, it is clearly in the national interest to protect and preserve them. The federal government continues to have a major role and responsibility to construct and preserve highways of national significance.

A SYSTEM OF HIGHWAYS OF NATIONAL SIGNIFICANCE

A System of Highways of National Significance should be recognized and funded consistently which would: serve interstate travel; connect principal metropolitan areas and major industrial areas; provide continuous and integrated statewide networks; and provide for higher levels of service and safety in handling heavier and larger capacity trucking. Ultimately, in several years, transition to a System of Highways of National Significance should occur.

Rather than the current practice of spreading limited federal aid inadequately among more and often conflicting demands, this approach would concentrate federal resources toward those project requirements which are of truly national importance.

Recommendations:

5-1. **A System of Highways of National Significance should be recognized to include the Interstate System, Primary System and bridges on all current federal-aid systems.**

5-2. **A study should be conducted to analyze the proposed System of Highways of National Significance to better rationalize its composition and determine how federal-aid funds should be apportioned in a fair and equitable manner to all states.**

The proposal for a System of Highways of National Significance would require the states to continue to increase their commitments and responsibilities in solving state and local transportation problems. While AASHTO supports full funding for the current Federal Aid System categories, anticipated federal revenues cannot, and should not be expected to meet all the fund requirements.

As we move toward 1987 there are specific program priorities AASHTO recognizes must be accomplished to achieve a system of national significance. The following recommendations in this chapter outline those priorities.

FEDERAL HIGHWAY TRUST FUND

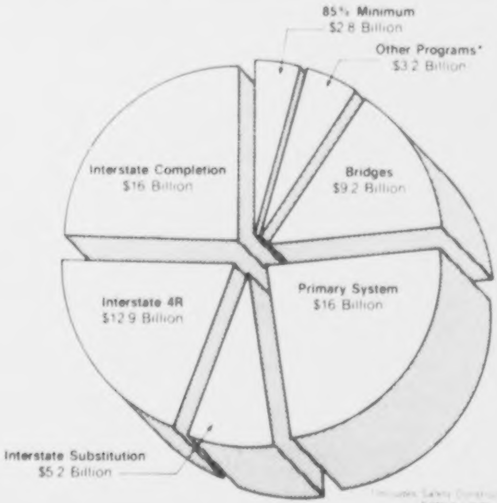
In 1956 the Federal Highway Trust Fund was created to help finance the Interstate Highway System, and also to provide revenues to other federal-aid highways. It has become apparent that the system of highways created through Federal Highway Trust Fund revenues will require extensive, ongoing preservation and reconstruction if they are to retain their serviceability. In areas experiencing growth, expansion of the system will be required. Given the national nature of the major highway systems of this country, the federal responsibility for preserving such highways continues beyond construction and should include ongoing preservation, reconstruction and growth accommodation.

Recommendations:

5-3. **The Federal Highway Trust Fund should be extended indefinitely to provide permanent, predictable and adequate funding for rehabilitation, restoration, reconstruction and resurfacing (4R) of the proposed System of Highways of National Significance to add capacity to that system, and to construct such new roads as may be required.**

5-4. **Users of the nation's highways should pay their proportionate share for the construction and preservation of those facilities used. Consideration of any future highway user fee changes should be based on this philosophy of equity and should be consistent with findings of the Federal Cost Allocation Study, as supported by AASHTO.**

Proposed System of National Significance
Federal Share 1987-1990



*Includes: Safety Construction $1.6 Billion
Federal Lands $1.2 Billion
Emergency Relief $0.4 Billion

THE INTERSTATE PROGRAM

The completion of the Interstate Highway System has been a national goal for 30 years and is achievable in the foreseeable future. AASHTO supports the 1990 completion goal established in the 1982 Surface Transportation Assistance Act by accepting the currently defined system with no provisions for further system expansion or further withdrawals for substitution. Sufficient and dependable funding are key requirements for a 1990 Interstate completion date. An annual apportionment level of $4 billion will meet the funding requirement for completion.

Recommendations:

5-5. **The currently defined Interstate Highway System should be completed by 1990 with no further expansion or substitution withdrawals. Authorizations should be set at levels to accomplish this national goal, at current match ratios, with states permitted to use less than the maximum ratio at their option.**

5-6. **The $300 million annual discretionary fund should be retained for completion, supplemented by lapsed Interstate apportionments.**

5-7. **States should be permitted to transfer and borrow Interstate 4R funds for Interstate System completion projects at their discretion.**

5-8. **States should be granted time extensions on an individual case basis for use of final Interstate System completion apportionments if they are demonstrating active progress toward completion, but are delayed by physical or external factors, such as court injunctions.**

The Interstate Cost Estimate (ICE) process, as presently handled, has not provided a dependable mechanism for making timely apportionments of the authorized funds. As originally intended, the Interstate Cost Estimate should serve as a basis for apportioning funds among states in a timely and efficient manner. Problems at the Congressional level have undermined the original intent of the ICE in recent years.

It has become increasingly apparent that the ICE must be administered differently if the national goal of completing the Interstate System by 1990 is to be achieved. Under current practice, obligational limitations applied to the entire Federal Aid Highway Program causes competition among program categories when states determine which projects to obligate. This seriously reduces the incentive for states to utilize their full Interstate completion apportionment because Interstate completion funds will not be lost if left unused, but will be reapportioned in subsequent years. The imposition of limitations on obligation authority and the lack of incentive jeopardize completion of the Interstate within the 1990 deadline.

Recommendations:

5-9. **A final Interstate Cost Estimate, developed, adjusted, and administered by the Federal Highway Administration, should be adopted to assure all appropriate and necessary projects are under contract for completion of the Interstate Highway System by 1990.**

5-10. **All Interstate funds used for completion, whether new or previously apportioned, should be exempt from any obligation limitations.**

Several states have completed their portions of the Interstate Highway System, resulting in substantial reductions in their Federal Highway Program funding levels. Recognizing that these program reductions will exist throughout the life of the Interstate Highway completion effort, AASHTO supports continuation of the 1/2 percent minimum Interstate apportionment for non-completion purposes. Since the 1/2 percent program is funded from the Interstate Program, preference in the use of those funds should be given to projects on the Interstate Highway System, including 4R projects.

Recommendation:

5-11. **The 1/2 percent minimum apportionment to all states for Interstate System completion should be continued, with preference in use of those funds for Interstate 4R work.**

The Interstate Substitution Program is a vital complement to Interstate completion, and as such, it also has certain completion requirements and a fixed program and cost definition. The current legislative provisions for the Interstate Substitution Program, including the present cost limitations, and the 1990 completion date, should enable a satisfactory conclusion to this program. Cost increase adjustments to the presently approved concept plans cannot be permitted if completion dates are to be met. An effective Interstate Substitution Cost Estimate (ISCE) must be adhered to as this program approaches completion.

Recommendations:

5-12. **Interstate highway substitution authorizations should be set at levels to permit completion by 1990. States should be permitted the flexibility to change their program concepts, but not increase costs. It must be emphasized that only highway projects would be eligible for use of these funds.**

5-13. **The allocation of 25 percent of the annual authorizations for highway substitution projects on a discretionary basis, at an 85-15 match, should be continued.**

5-14. **A final Interstate Substitute Cost Estimate, developed, adjusted, and administered by the Federal Highway Administration, should be adopted to assure all appropriate and necessary projects are under contract for completion by 1990.**

As completion of the Interstate Highway System approaches, recognition of the importance of this system must not be lost. The national goal must change from completion, to one of increasing emphasis on preserving this vital system.

The 1982 Act more than tripled the average annual authorizations for Interstate rehabilitation, restoration, resurfacing, and reconstruction (4R). This Interstate 4R Program must be continued and must remain strong because the well-being of this nation's economy depends heavily upon an efficient, safe and reliable Interstate Highway System.

Recommendation:

5-15. **The Interstate 4R program should be continued essentially as it now exists, with authorizations adequate to retain efficient, safe and reliable service for the Interstate system. States should be permitted to use less than the 90% federal match share at their option.**

THE PRIMARY PROGRAM

The Primary Highway System consists of approximately 250,000 miles, not counting the mileage of the Interstate Highway System. Much like the Interstate System, Primary System highways serve as major routes of travel through and between national and state regions. Because of this role, they receive a great amount of travel. They face a future of deterioration unless the necessary capital investment is made to retain their serviceability and usefulness. It is in the national interest to adequately protect and preserve the use of our Primary System highways.

Recommendations:

5-16. **The Primary Highway System program should be continued and be included as a part of the System of Highways of National Significance.**

5-17. **Funding for the Primary System program should include a maximum federal share of 80 percent, but states should be permitted to use less than the maximum at their option.**

THE BRIDGE PROGRAM

Federal special bridge replacement programs started in 1970, in recognition of the enormous bridge rehabilitation needs facing this country.

The Highway Bridge Replacement and Rehabilitation Program as included in the 1982 Act, had authorization levels twice as high as in previous legislation. This significant increase recognized the increasing bridge investment requirements on our nation's highways.

AASHTO's previous policy recommendations stated that the continuation of the federal bridge program is essential given the number of deficient bridges, their safety implications for the various highway systems, and the need to replace or rehabilitate those bridges on and off the Federal-aid System. Bridges on the current Federal-aid System should be therefore included in the System of Highways of National Significance.

Recommendations:

5-18. **The existing Bridge Replacement and Rehabilitation program for bridges on federal-aid highway systems should be continued.**

5-19. **The discretionary bridge program should be continued and increased from $200 million to $300 million per year.**

5-20. **Funding for the bridge program should include a maximum federal share of 80 percent but states should be permitted to use less than the maximum at their option.**

OTHER PROGRAMS

There are several federal categorical programs that serve a System of Highways of National Significance: highway construction for hazard elimination; railroad grade crossings; highways on federal lands; and emergency relief. In each of these programs there is an important element that serves to enhance the national highway program.

The 85% Minimum Allocation provision of the 1982 STAA provided states a guarantee of at least 85 percent of their revenue contributed to the Highway Trust Fund. This program serves to retain equity in distribution of federal highway funds.

Recommendations.

5-21. **Categorical programs addressing highway safety construction, federal lands highways and emergency relief should be continued to address unique highway requirements.**

5-22. **The 85% Minimum Allocation should be retained as a permanent program. The calculation of the allocation should be determined by Federal Highway Trust Fund**

TABLE V

RECOMMENDED PROGRAM FOR A SYSTEM OF HIGHWAYS OF NATIONAL SIGNIFICANCE FEDERAL SHARE (BILLIONS)

	Federal Funds Authorized 1986	*1987*	*1988*	*1989*	*1990*
INTERSTATE COMPLETION	$4.0	$4.0	$4.0	$4.0	$4.0
INTERSTATE 4R	3.2	3.1	3.2	3.2	3.4
INTERSTATE SUBSTITUTES	.7	1.3	1.3	1.3	1.3
PRIMARY SYSTEM (1)	2.5	3.8	3.9	4.1	4.2
BRIDGE, FAI, FAP	2.1	1.1	1.2	1.2	1.3
BRIDGE, FAS, FAU		1.1	1.1	1.2	1.2
SAFETY CONSTRUCTION	.4	.4	.4	.4	.4
85% MINIMUM	.7	.7	.7	.7	.7
FEDERAL LANDS	.3	.3	.3	.3	.3
EMERGENCY RELIEF	.1	.1	.1	.1	.1
TOTAL	$14.0	$15.9	$16.2	$16.5	$16.9

(1) Program authorizations for Interstate Substitution and 85% Minimum, given recent experience, are being used in large part to fund some of the requirements on the Primary System. (See Appendix A) This suggests that the program requirement level shown for the Primary System may be overstated if past expenditure patterns prevail according to survey results.

(2) Total authorizations for 1986 are $2.1 billion for federal-aid system bridges and off-system bridges.

Source: AASHTO Task Force on the Future Directions for the Federal Highway Program

revenues generated by product use and highway use within the borders of each state. These steps are necessary to assure a reasonable level of equity between each state's contributions to and receipts from the Highway Trust Fund.

The required investment levels for the proposed System of Highways of National Significance are shown in Table V. These investment amounts are developed in accord with the discussions and recommendations of this chapter, and of Part I, concerning national highway priorities, appropriate federal role, and the national purpose of a federal highway program.

The recommended levels fully meet the demands to complete the Interstate System by 1990, complete the Interstate Substitution Program by 1990, preserve the existing Interstate System, maintain a 1980 service level on the Primary system, and meet all accruing needs and backlog needs on current Federal-aid System Bridges by the year 2000, if the program is continued to 2000.

Table V reflects an average annual federal share program level for the period 1987 through 1990. This program level is based on meeting the requirements of a System of Highways of National Significance, and assumes that current federal participation rates will be held constant.

With respect to available revenue from existing federal sources, the federal share program level exceeds projected revenues. The proposed requirements for Highway Safety, Federal Lands Highways, Emergency Relief, and 85% Minimum Allocation are extensions of the 1986 fund levels.

CHAPTER 6

A PROGRAM OF HIGHWAYS OF STATE AND LOCAL INTEREST

The proposed System of Highways of National Significance does not include a number of highways and highway safety programs now contained in the Federal-aid System, nor does it include many off-system bridges which currently would be eligible for federal aid.

These highways and off-system bridges are nevertheless important to state and local travel. Local funding resources are often inadequate for projects which are far costlier than the local populace can support. Therefore, a federal role should continue to exist for Federal-aid Secondary and Urban systems, off-system bridges, and non-construction safety. While some funding is proposed from the Highway Trust Fund, the proposed federal funding does not meet the full investment requirements on these highways, based on the traditional federal role in these systems.

STATE AND LOCAL PROGRAM

A voluntary, state-administered block grant Program of Highways of State and Local Interest should be established for projects on the current Federal-aid Secondary and Urban Systems, off-system bridges, and highway safety other than construction. The program would retain a federal role, providing 1986 funding levels for those categories included.

States not electing to participate in the proposed voluntary block grant program would continue to receive funding for the several federal-aid programs at the same levels as provided in the block grant. Secondary and Urban Systems and off-system bridge programs in such states would be administered by FHWA.

Recommendations:

6-23. **A voluntary, state-administered block grant Program of Highways of State and Local Interest should be established for projects on the current Federal-aid Secondary and Urban Systems, off-system bridges, and highway safety other than construction. States would have the op-**

TABLE VI

RECOMMENDED PROGRAM OF HIGHWAYS OF STATE AND LOCAL INTEREST FEDERAL SHARE (BILLIONS)

	Federal Funds Authorized 1986	*1987*	*1988*	*1989*	*1990*
SECONDARY SYSTEM	$.7	$.7	$.7	$.7	$.7
URBAN SYSTEM	.8	.8	.8	.8	.8
BRIDGE, OFF-SYSTEM	N/A	0.5	0.5	0.5	0.5
SAFETY, NON-CONST.	.2	.2	.2	.2	.2
TOTAL	$1.7	$2.2	$2.2	$2.2	$2.2

Source: AASHTO Task Force, Future Federal Highway Programs

tion of including prior unobligated fund balances in the block grant categories.

6-24. Under the Program of Highways of State and Local Interest, federal requirements and standards should be eliminated for project development procedures, design standards, environmental assessment, disadvantaged business enterprises, and other mandates. In such areas, state and local requirements should govern.

6-25. Funding for the Program of Highways of State and Local Interest should include a maximum federal match of 75 percent, but states should be permitted to use less than the maximum at their option. States not electing the block grant would have match ratio maximums at the same level as if under the block grant, but would be permitted to use less than the maximum at their option.

6-26. Provisions of the block grant program should permit a transfer of up to 25 percent of its funds to projects on the System of Highways of National Significance.

6-27. Urbanized areas of 200,000 population or more should receive a portion of their state's block grant funds.

6-28. State and local governments should monitor highway investment requirements not met by federal aid and set state and local user tax rates to meet funding requirements.

Table VI contains proposed federal program levels for State and Local Programs, for the period 1987 through 1990, of approximately $2.2 billion per year.

Table VII represents the recommended total federal program, for both the System of Highways of National Significance and the State and Local Program.

TABLE VII

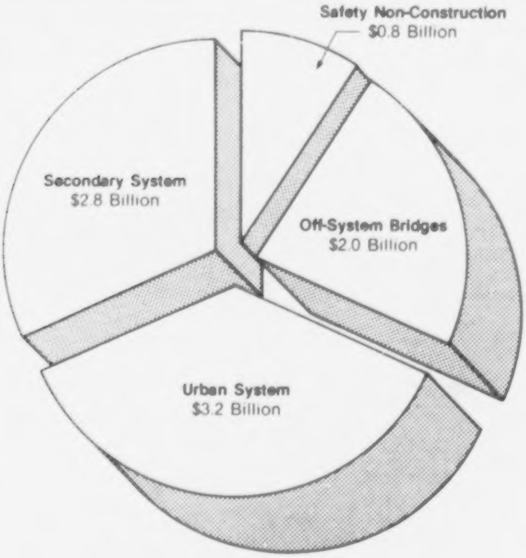
PROPOSED FEDERAL-AID HIGHWAY PROGRAM
FEDERAL SHARE
(BILLIONS)

NATIONAL SIGNIFICANCE PROGRAM	*Federal Funds Authorized 1986*	*1987*	*1988*	*1989*	*1990*
INTERSTATE COMPLETION	$4.0	$4.0	$4.0	$4.0	$4.0
INTERSTATE 4R	3.2	3.1	3.2	3.2	3.4
INTERSTATE SUBSTITUTES	.7	1.3	1.3	1.3	1.3
PRIMARY SYSTEM	2.5	3.8	3.9	4.1	4.2
BRIDGE, FAI, FAP	2.1*	1.1	1.2	1.2	1.3
BRIDGE, FAS, FAU		1.1	1.1	1.2	1.2
SAFETY CONSTRUCTION	.4	.4	.4	.4	.4
85% MINIMUM	.7	.7	.7	.7	.7
FEDERAL LANDS	.3	.3	.3	.3	.3
EMERGENCY RELIEF	.1	.1	.1	.1	.1
STATE AND LOCAL PROGRAM					
SECONDARY SYSTEM	.7	.7	.7	.7	.7
URBAN SYSTEM	.8	.8	.8	.8	.8
BRIDGE, OFF-SYSTEM	N/A	0.5	0.5	0.5	0.5
SAFETY, NON-CONST.	0.2	.2	.2	.2	.2
TOTAL	$15.7	$18.1	$18.4	$18.7	$19.1

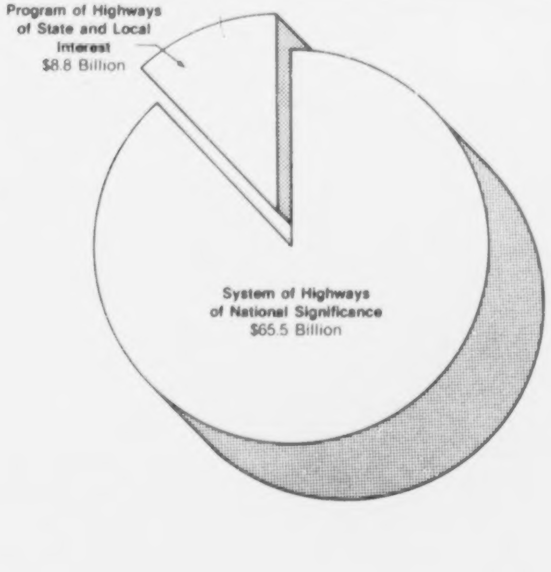
Note: Off-system bridge authorization included in $2.1 billion for 1986.

Source: AASHTO Task Force, Future Federal Highway Programs

Proposed State and Local Interest Program
Federal Share 1987-1990

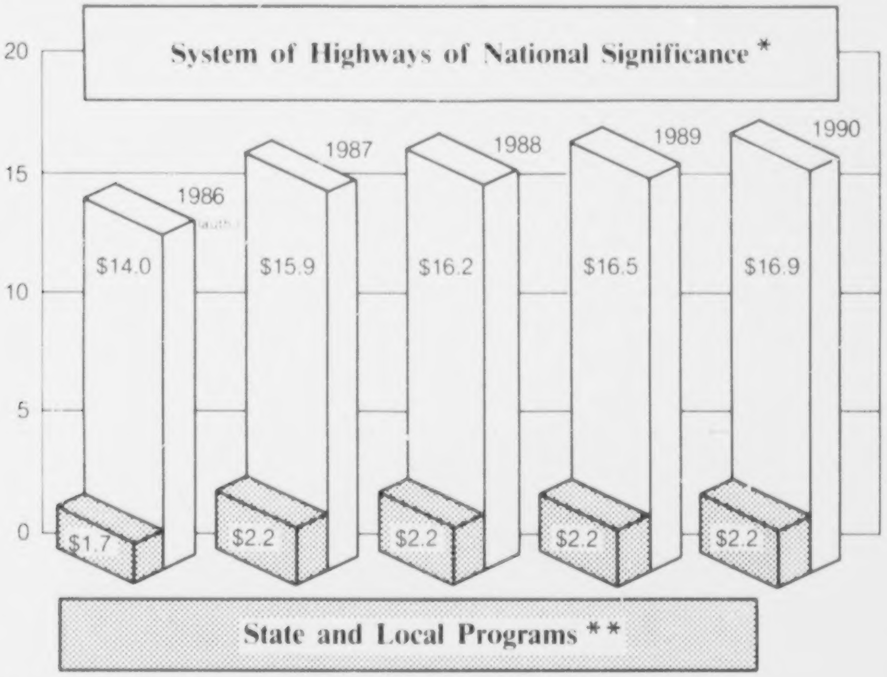


Proposed Federal-Aid Highway Program
Federal Share 1987-1990



Proposed Federal-Aid Highway Program

Federal Share ($ Billions) 1987-1990



Note: *The System of Highways of National Significance includes Interstate Completion, Interstate 4R, Interstate Substitution, Primary, Bridges, Safety Construction, 85% Minimum, Federal Lands and Emergency Relief programs.

**The State and Local Program includes Secondary, Off-System Bridges, Urban, and Safety Non-Construction programs.

CHAPTER 7

FUNDING ALTERNATIVES

This report identifies systems of highways of national significance and of state and local significance that the federal government should fund on a permanent basis, in conjunction with state matching funds. However, projected revenues from the Federal highway Trust Fund are clearly inadequate to meet the identified investment requirements and the additional needs which are certain to occur.

It is clear that both the federal and state governments must address the gap between revenues and required investments, and find some means to adequately finance our highway system. There are a number of options that the federal government can consider in determining how to meet the required investment. These include: elimination of alcohol fuel tax exemptions; the indexing of motor fuel taxes against inflation and increasing fuel efficiencies; revised policy on toll roads; the consideration of an increased federal excise tax on motor fuel; imposition of a value-added tax on gasoline; use of funds from the National Infrastructure Fund, if adopted; and the consideration of a federal weight-distance tax. These are addressed in greater detail in this chapter. Other options undoubtedly exist and should be explored.

Regardless of the means, the federal government must, after careful consideration, enact a funding alternative that adequately funds the requirements to improve and preserve our highway network. State and local governments must continue to shoulder their own responsibilities for building and preserving a safe and serviceable highway system.

FUEL TAX EXEMPTIONS ON GASOHOL AND METHANOL

At both federal and state levels, the fuel tax exemption for gasohol, methanol, and other special fuels has made a significant impact on highway user revenues. The use of these fuels has been increasing, and as exemptions also increase, the tax revenue from these fuels is decreasing. In 1983 the federal 5-cent gasohol exemption cost the Highway Trust Fund an estimated $220 million. The current 6-cent exemption, if continued through 1995, will result in a total loss to the Federal Highway Trust Fund of $7.5 billion between 1983 and 1995. The average annual cost to the Highway Trust Fund of gasohol tax exemptions is $.6 billion per year from 1987 to 1990. The overall average from 1987 to 1995 would be approximately $.7 billion per year.

Recommendations:

7-29. **All fuel tax exemptions for gasohol, methanol and special fuels should be eliminated during 1985.**

7-30. **If federal policy retains fuel tax exemption subsidies, they should be financed from general revenues, not the Federal Highway Trust Fund.**

INDEXING FUEL TAXES

Indexing of fuel taxes for inflation and increasing engine fuel efficiency can produce a dependable method for stabilizing the purchasing power of taxes. This in turn produces a constant program level, in terms of funding, and enables a more objective analysis of whether or not a program level should be increased without trying to adjust for inflation and engine fuel efficiency increases at the same time.

The greatest advantage to indexing fuel taxes is to protect them from inflation. If an indexing of federal fuel taxes against inflation were to be implemented, the estimated total federal taxes it would produce would be $5.2 billion from 1987 to 1990.

Recommendation:

7-31. **A federal fuel tax index based on fuel consumption changes and cost index changes should be implemented to ensure a constant purchasing power of current tax revenues.**

TOLL ROADS

The selection of toll roads, setting of toll rates, collection, administration and spending of toll revenue should be administered by an agency, such as a state transportation department or a non-autonomous commission, authority, or board. Tolls should be viewed as a supplement to federal aid. In particular, blending of federal, state, local, and toll revenues is an option that should be available to the states, especially for new construction.

Recommendations:

7-32. **State transportation agencies should be permitted to develop toll highways in conjunction with use of federal funds on fed-**

erally aided projects, as they are now permitted to do with regard to toll bridges and toll tunnels.

7-33. **The Secretary of Transportation should be granted the authority to allow the imposition of tolls on federal aid highways and bridges where uniquely high maintenance, construction or reconstruction costs exist. There should be no obligation to repay Federal-aid highway funds which may have been expended on the facility.**

FEDERAL WEIGHT-DISTANCE TAX

Based on information from the Federal Highway Cost Allocation Study, the existing set of taxes and fees for trucks does not achieve an adequate level of equity within the classes of users. This concern has prompted the evaluation of alternatives to the current tax structure. AASHTO conducted a thorough study of the most promising alternatives and found that truck taxes based on a combination of weight of vehicles and the distance they travel is the most equitable means of taxation, with respect to costs imposed on the highway system, and is efficient in administration.

In addition, it should be attractive to trucking firms since it involves periodic payments based on actual use. Several states have established weight-distance taxes that are working well and have reasonable administrative costs and reporting requirements. Other states also have mechanisms in place for carriers to report heavy truck weight and mileage information that is needed for a weight-distance tax.

Recommendation:

7-34. **A federal weight-distance tax should be considered by Congress as a substitute for the heavy vehicle use tax and all other federal user fees on trucks except for a federal fuel tax levied at the same rate as on all other vehicle classes. The truck tax structure should be designed to yield revenues at least equal to the existing structure of taxes and to provide equity among different classes of users to the greatest extent possible.**

MOTOR FUEL TAX

The federal motor fuel tax rates were increased in the 1982 Act for both gasoline and diesel fuels. Subsequent changes in the diesel fuel tax rates raised it to 15 cents per gallon, while gasoline remained at 9 cents per gallon. Gasohol is taxed at 3 cents per gallon.

With current consumption patterns for fuels, it is estimated that for each 1-cent increase in federal tax rates, the resulting revenues to the Trust Fund will be about $1.1 billion per year.

VALUE-ADDED TAX

A value-added tax could be adopted that would raise new revenues from highway users. A 1 percent value-added tax on gasoline, for example, would be 1 percent of the gallon price times the number of gallons sold. For gasoline at $1.30 per gallon, the 1 percent value added tax would be 1.3 cents per gallon in added revenues.

NATIONAL INFRASTRUCTURE FUND

As proposed in Congress in 1984, a National Infrastructure Fund would provide funds for interest-free loans to state and local governments for construction and improvement of highways, bridges, water supply and distribution systems, mass transportation facilities and equipment, wastewater treatment facilities, and for other purposes.

The bill would establish a sinking fund of $3 billion per fiscal year over ten years. Proceeds in the fund would be available to states according to that state's population as a percentage of the total population. Such loans would be restricted to construction-related costs; proceeds from those loans could not be used to pay operation and maintenance costs. The bill also requires that at least 30 percent of such grants be used to make interest-free loans to political subdivisions of the state and departments, agencies, and instrumentalities thereof. It is anticipated $.9 billion would reach local governments per year. Some of the borrowing capacity resulting from this proposal, should it be enacted, could be used by state and local government for highway purposes.

CHAPTER 8

GENERAL RECOMMENDATIONS

In addition to the specific program recommendations, there are several general recommendations which would benefit the Federal-aid Highway Program.

OBLIGATION LIMITATIONS

Measures limiting total obligation of apportioned funds substantially reduce highway improvement levels passed by Congress. As a consequence of continued limitations, the user taxes collected are not expended in a timely manner.

States must plan and program highway projects well in advance of the date funds are obligated. The manipulation of program levels through these limits severely constrains the ability of states to plan, program and implement much-needed construction and rehabilitation programs.

Recommendation:

8-35. **No obligation limitations should be placed on any federal highway programs. This is especially critical to the completion of the Interstate System by 1990.**

STABILITY IN FEDERAL FUNDING

The Federal Highway Program has provided consistent and reliable funding over the years. This has enabled states to adequately plan and implement their highway programs, and has benefited the traveling public in that highway improvements were made in a timely, orderly fashion.

But the disruption of that stable and consistent funding has occurred more and more frequently. Funding delays have been caused by failure to agree on an Interstate Cost Estimate over an extended period of time. Uncertainty in continuation of the Highway Trust Fund also caused concern, as prior to the 1982 Act when tentative program reductions were contemplated in the event the Federal Highway Trust Fund was not extended. The budget impoundments of the early 1970's also precipitated turmoil caused by funding instability, as states adjusted their programs to conform to anticipated funding.

In circumstances where highway improvements are delayed, increased costs are incurred and the funds are not used to their maximum advantage.

Recommendations:

8-36. **Federal-aid highway programs should be funded regularly, to the full amounts authorized, in a timely and predictable manner.**

8-37. **Any mechanism that restricts the rate of federal-aid obligations incurred within a fiscal year by the states, such as the current 25 percent national first quarter restriction, should be eliminated.**

FLEXIBILITY OF CATEGORIES

The 1982 Act made some progress in reducing the number of funding categories, and it also extended transferability of certain funds among funding categories. Continued reduction and consolidation of categories is necessary to provide states maximum use of available federal funds. Categorical requirements do not always account for special or unique transportation problems in each state. States should be provided with more transferability and fewer categorical constraints so as to permit them to address their transportation requirements.

Recommendations:

8-38. **Greater flexibility should be extended to the states in their use of federal-aid highway funds including: increasing the percentage of funds that can be transferred among categories, allowing transfers among more programs, and consolidating federal programs. Transfers of Interstate completion funds by states with incomplete Interstate Systems should be prohibited.**

8-39. **The mandatory earmarking of discretionary funds by Congress should be eliminated.**

STREAMLINE FEDERAL PROCEDURES

States recognize a degree of uniformity is needed to ensure a consistent national highway system. They also recognize that current federal procedures go far beyond serving only highways of national significance, and many times involve facilities of state and local significance.

In the past few years some meaningful reductions in red tape have been achieved, but more can be accomplished. Federal rules and regulations should apply only on the System of Highways of National Significance in order to expend funds effectively and prudently.

Recommendation:

8-40. **The findings and recommendations included in the AASHTO report "Federal Mandates Contributing to Excess Project**

Costs," should be further implemented, and additional streamlining activities pursued.

PROVIDE INCENTIVES, NOT SANCTIONS

The threat of funding sanctions against states has become pervasive in federal laws governing highway programs. By their nature, sanctions have become a method of implementing various programs to correct social or economic conditions that many times have little to do with highway or transportation programs. Incentives, which are few, are usually narrow in scope or reward.

Recommendation:

8-41. Incentives should be developed where needed to encourage states to comply with federal policies, and federal sanctions should be eliminated or reduced in number.

DEMONSTRATION PROJECTS

Since the 1978 Act, the growth of special highway projects, usually funded as demonstration projects, has seriously affected the Highway Trust Fund. Regardless of the merit that these projects might have, the fact that they are outside the program mainstream, and outside normal authorizations, skews funding and disrupts funding priority.

Recommendation:

8-42. Special demonstration projects outside of normal authorizations should be eliminated. The ongoing drain of these projects on the Highway Trust Fund is significant and should not continue.

EVALUATE PROGRAM PROPOSALS

Highway program proposals before Congress need to be thoroughly analyzed in terms of their overall impact on states before passage. The recent productivity increases for heavy vehicles is an example of what can happen: states now face significantly increased costs in accommodating the larger vehicles on existing highways with no additional revenue provided to meet these costs.

Recommendations:

8-43. Highway legislative proposals should be fully reviewed and analyzed for cost impact on states before being enacted or implemented. If such proposals are implemented, adequate funding should be provided to the states to cover the additional costs incurred as a result of federal action.

COMMERCE REQUIREMENTS

The present Interstate and Primary Highway Systems are used for the major portion of commercial traffic in the nation. As this commercial traffic increases, the importance and costs of preserving these highways will also grow.

It is important that federal taxes required to preserve this system reflect growing use and impact on the system by commercial interests. Federal user fees will need examination to ensure that each type of highway user pay a proportionate share for system preservation and growth.

Recommendation:

8-44. Information on highway use by commercial vehicles should continually be collected and changes made in highway user fees as required to maintain equity among users.

HIGHWAY RESEARCH

The federal-state partnership in highway research has proven highly productive in improving highway technology. The current research programs need to be continued. In addition, the focused Strategic Highway Research Program flowing from the Strategic Transportation Research Study needs to be supported.

Recommendation:

8-45. Legislation should be enacted approving the use of 1/4 of 1% of apportioned federal-aid highway funds for the Strategic Highway Research Program, and continuation of the existing highway research programs should be supported.

AASHTO believes the recommendations contained in this report should receive the highest priority in the consideration of future highway legislation.

APPENDIX A

The Task Force on the Future Directions for the Federal-aid Highway Program conducted surveys of the states to determine expected requirements in two programs. The results are summarized below.

INTERSTATE SUBSTITUTION HIGHWAY FUND USE

Survey results indicated 19 states would require $4.7 billion in funds to complete this program distributed across the following federal-aid highway programs. (New York and Rhode Island are not in the total)

FAI-4R	5%	FAS	3%	Other	8%
FAP	46%	FAU	38%		

Distribution is based on weighted average.

85% MINIMUM ALLOCATION FUND USE SURVEY

Survey results indicate how 7 states estimate their use of $700 million in federal minimum allocation funds for FY 1984 in the following categories. (Wisconsin not included)

FAI	1%	FAP	59%	FAU	16%
FAI-4R	7%	FAS	8%	Other	9%

Distribution is based on weighted average.

The estimated annual allocation of $700 million is for FY-84 only

APPENDIX B

Advisory Committee to the AASHTO Task Force on Future Directions for the Federal-Aid Highway Program

Robert Datel
California Department of Transportation

Bryan Davis
Arkansas Highway & Transportation Dept.

Douglas Differt
Minnesota Department of Transportation

Harvey Haack
Pennsylvania Department of Transportation

Gene McCormick
Illinois Department of Transportation

Robert Mickelson
Arizona Department of Transportation

Gedeon Picher
Maine Department of Transportation

Clyde Pyers
Maryland Department of Transportation

Dean Schofield
South Dakota Department of Transportation

Roger Schrantz
Wisconsin Department of Transportation

Alan Lightner
Oregon Department of Transportation

Michael O'Keefe
Kansas Department of Transportation

William C. Wallace
Tennessee Department of Transportation

George Herndon
Florida Department of Transportation

G. Robert Adams
Michigan Department of Transportation

V. W. Korf
Washington Department of Transportation

Mr. ANDERSON. Our next witnesses are a panel consisting of the National League of Cities, the U.S. Conference of Mayors, and the National Association of Counties.

First, the Honorable Bob Bolen, Mayor of Fort Worth, TX, for the National League of Cities; the Honorable Doug Sutherland, the Mayor of Tacoma, WA, for the U.S. Conference of Mayors; and the Honorable Carl Young, County Executive of Broome County, NY, for the National Association of Counties.

TESTIMONY OF A PANEL: HON. BOB BOLEN, MAYOR, FORT WORTH, TX, ON BEHALF OF THE NATIONAL LEAGUE OF CITIES; HON. DOUG SUTHERLAND, MAYOR, TACOMA, WA, ON BEHALF OF THE U.S. CONFERENCE OF MAYORS; AND HON. CARL YOUNG, COUNTY EXECUTIVE, BROOME COUNTY, NY, ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES

Mr. BOLEN. Thank you, Mr. Chairman.

Members of the committee, it is a privilege to be here today. I would like to read my remarks.

I am Bob Bolen, Mayor of Fort Worth, TX, and chairman of the National League of Cities Transportation and Communications Committee. I am here today to testify on behalf of NLC and the 15,000 cities we represent on the President's proposed budget for fiscal year 1986.

I believe APTA has more than adequately documented the specific impact of the proposed mass transit budget cuts on the Nation's transit systems. I would like instead to outline for you the context in which transit cuts will occur.

The past 5 years have placed severe financial pressures on our cities. They have been burdened with high interest rates, tax limitations and rollbacks, a crippling recession, and, for many of them, a sluggish recovery. Throughout all this, local leaders have had to find a way to make ends meet, and it hasn't been easy.

During this period, many major urban programs have taken 50 percent cuts. Because these cuts were commenced during the recession, and because cities are required to submit balanced budgets on an annual basis, almost all cities in the past 4 years have raised local taxes and user fees, while cutting employees and services. At the same time, as more and more families have fallen through the safety net, cities have become the place of last resort.

Finally, perhaps the most extraordinary change over the past 4 years is the extent to which Federal urban policy has come to be dominated by Federal tax policy. On almost every major urban issue, Federal tax expenditures have far outstripped direct Federal assistance. This means two things: One, cities have far less control over the use of Federal benefits to their cities, and, two, the Internal Revenue Service, the House Ways and Means Committee, and the Senate Finance Committee have the key roles in what is happening to the cities from the Federal policy standpoint.

It is interesting to note, for instance, that last year the Treasury estimated that the deficit was increased by $1.2 billion due to mortgage interest deductions taken by Americans to purchase vacation homes. That amount would automatically increase under the President's new budget proposal in sharp contrast to the virtual elimination of all housing assistance for low- and moderate-income Americans. The contrast is especially sharp, Mr. Chairman, when we consider the cost in almost every city in this country for the number of homeless men, women, and children who must be sheltered on winter nights.

While cities across the Nation have risen to accept these new burdens and responsibilities, we are confronted with a serious obstacle to accepting any more. Eighty percent of cities have one or another type of statewide tax limit. Moreover, there is direct correlation between slow local revenue growth and State imposed tax limits. Those cities with the slowest local revenue growth are those laboring under the burden of State imposed tax limitations. For instance, Mr. Chairman, the city of Charlotte, NC, is prepared to raise local taxes to help absorb potential reductions in Federal operating assistance, but they are precluded by State law from doing so.

Other cities, regardless of State law, simply have nothing to tax. Let me give you one other example. The city of Johnstown, PA, with a population of 35,500 has an unemployment rate of 14 percent and 38 percent of the population on fixed incomes. With statistics like that, it is clear they are not in a position to raise taxes. The last transit cut of 27 percent was dealt with by reductions in service. The transit-dependent community—which in this case is significant—simply cannot afford increased fares. The already-reduced provision of service coupled with increased fares would ultimately result in the total elimination of a mass transit system in a community that cannot function without one.

What this means, Mr. Chairman, is that many cities, especially those in the most precarious financial situations, will be unable to help themselves or the citizens in greatest need. We fully understand the absolute necessity for bringing the budget deficit under control. What we fail to understand is why the deficit reduction program calls for the outright elimination of so many Federal programs that have proven to be very successful. We fail to understand why, when we have struggled to keep our financial houses in order and have made the difficult choices and balanced our budgets—why our 13 percent of the Federal budget must bear the burden of the deficit while the rest of the budget grows.

TRANSIT ASSISTANCE

As you and this committee are aware, NLC was here in 1981 actively working in support of a tax increase, a 5-cent gas tax, to provide adequate revenues to meet our transit needs and priorities. And I was one of the members at that time. We supported this tax increase only with the assurance that newly generated revenues would supplement, not supplant, existing transit revenues. We expected that existing and new revenues would move us into the direction of addressing over $35 billion in unmet needs over the next 10 years.

Not only did we not get what we supported in authorizing legislation, we are now confronted with a budget proposal which will decimate the transit program. Simultaneously, comes the Supreme Court decision—*Garcia* v. *San Antonio*—that can only result in increased costs not only in transit, but I'm afraid across-the-board in city operations.

In 1974, Congress extended the provisions of the Fair Labor Standards Act to State and local governments. In 1976, the Supreme Court invalidated this law as an "unwarranted intrusion in the integral operations of State and local governments." Two weeks ago, the Supreme Court overturned this decision.

While the full impact of this decision has not yet been determined, we believe it has the potential to be significant. It has never been the minimum wage provisions that were of major concern. Only local elected officials who are not covered by FLSA earn less than the minimum wage. It is the maximum hours provisions that are problematical. As I am sure you understand, we cannot unilaterally abrogate collective bargaining agreements which establish the work schedules in our various departments to minimize or avoid potential overtime liability. Our contracts with transit workers cannot simply be changed to permit use of only part-time employees and thereby avoid new overtime liability.

In transit, there is even more uncertainty about exactly when the application of FLSA began. We may be facing a backpay liability that began in 1979.

The administration's presumption is that State and local governments can fill the void created by the withdrawal of the Federal Government from virtually every major urban program with what we know are vastly overstated State and local surpluses. What few seem to understand is that cities are constitutionally prohibited from incurring a deficit. To meet this requirement, any prudent manager is going to insure the availability of contingency funds to deal with unexpected emergencies. The existence of contingency funds has not precluded cities from reducing their work force or from raising taxes to meet rising costs. Should the contingency funds not be needed, of course, it looks like a surplus. But this "surplus" is plowed back into our next budget and is used to meet costs or to insure a mandated balance budget. Any city fortunate enough to have this kind of "surplus" can assure you that it is inadequate to fill the void that would be left if Congress accepted the extensive cuts proposed in the President's budget. Furthermore, if we used our contingency funds for ongoing operations, we would still be required to balance our budgets and would have to replace any contingency funds used for other purposes.

While State assistance to local governments has been on the rise in recent years, their reported surpluses have also been overrated. In my State of Texas, we have no surplus and the Governor sought and obtained a tax increase last year. This year, 16 other Governors are seeking tax increases. Even where there are State surpluses, one would have to presume that they will first be used to replace reductions in Federal funding for programs for which the States have responsibility.

NLC RECOMMENDATIONS

The NLC urges Congress, first, to impose an across-the-board freeze on all items in the budget except means-tested entitlement programs and interest. Our proposal includes all city programs, defense, social security, tax expenditures, and would result in over $70 billion in savings without shifting mandated responsibilities and new burdens to other levels of government. It means we support a reduction in transit assistance to cities by freezing such assistance at current levels in fiscal year 1986.

Second, NLC proposes that Congress expand its view of the budget to include not only direct expenditures for a given functional area but the tax expenditure impacts on functional policy areas as well. For example, the availability of adequate parking facilities has an impact on the commuting choices made by employees. Our tax code encourages construction of such facilities by providing a mortgage interest deduction for the owner of such an enterprise. Yet this tax expenditure is not viewed in the context of overall transit policy.

The recently enacted tax law permits employers to fully write off parking subsidies for their employees, but caps the monthly write-off for transit passes at $15 a month.

IRS has developed new regulations designed to tax employees who commute in employer-owned vehicles, but this, too, is not being viewed as part of the overall transit policy. If one were to assume that Congress will not act to alter this latest IRS rulings, wouldn't it make sense to view this additional income to the Federal Treasury as an offsetting receipt applicable to overall transit expenditures?

And, third, Mr. Chairman, NLC believes that if the administration or Congress wants to increase spending in any area, they should increase taxes to pay for it so that every dollar of savings from program freezes or reductions reduces the Federal deficit. Your committee is a pioneer of that concept in airport, highway, and transit financing. NLC has supported that approach, as we did in supporting the gas tax increase in 1981, and will continue to do so to finance critical needs and priorities.

I appreciate the opportunity to present our views to the committee. You have a most difficult task ahead of you, and we are more than willing to provide whatever assistance we can.

Thank you very, very much.

Mr. **Anderson**. Thank you, Mr. Bolen.

Our next witness is the Honorable Doug Sutherland, the mayor of Tacoma, representing the U.S. Conference of Mayors.

We will ask our questions of the three of you when we get through here.

Mr. **Sutherland**. Thank you very much. It is my delight, Mr. Chairman, to be before you to speak about transit, particularly in my own city.

You already have written remarks and what I will do, rather than repeat this, much of which is in support of the same position articulated by the National League of Cities. The U.S. Conference of Mayors feels much the same way.

I would like, however, to read just a short impact, what happens in my own city.

In Tacoma, we receive approximately $1.8 million in Federal operating assistance for our regional transit system. This is equivalent to approximate 8 percent of the system's $21.6 million operating budget. If Congress approves the proposal to eliminate operating assistance and if the transit system with their attempt to maintain its current level of service, this transit will have a revenue shortfall of $600,000 in the year 1987, and $1.6 million in the year 1988.

In the face of these kinds of deficits, we would have to implement some substantial changes in order to maintain the fiscal integrity of our system.

At this time, Pierce Transit estimates that it would have to reduce its level of service by approximately 7 percent. It is estimated that between 360,000 and 400,000 passengers would be denied transit service. Nearly 8 percent of the agency's employees would probably have to be laid off, and this loss of service would significantly reduce the quality of life for or elderly, our disabled, and low-income citizens who are the primary users of Pierce Transit buses and specially-equipped vans.

We have had fare increases in our system in 1982 and 1984 in order to increase the fare box recovery ratio, and I have doubts that further fare increases would offset these funding losses due to the elasticity of demand.

The same applies to increasing State and local taxes for transit. As it is currently constituted, Pierce Transit was formed in 1979 when the residents imposed upon ourselves a three-tenths of 1 percent sales tax and a 1 percent motor vehicle excise tax.

We recognize that all segments of our society will have to make some very severe sacrifices if the Federal budget is to be reduced to offset some of these deficits.

In the past, Pierce Transit has participated in those sacrifices when in 1982 the Surface Transportation Act was passed, Pierce Transit accepted a 10-percent reduction in operating assistance from $2 million to $1.8 million. The proposed budget would eliminate all operating assistance and it would severely reduce funds available for future projects such as few-bus purchases.

Basically, mayors are faced with the difficulties of dealing on a firsthand basis with the problems of our community. In 1979, the city of Tacoma sold its bus service to a regional authority that was then established. So, we are trying to provide service in an extraordinarily large area, servicing well over 500,000 people.

Part of the other aspects of why it is important for us to be able to maintain the current level of service, I sit also as the chairman of the Puget Sound Air Pollution Control authority which includes the cities of Seattle, Tacoma, Everett, Bremerton, as well as a four-county area. And part of the air pollution—we believed that we were solving some of those air pollution problems, but by the increase rather than use of vehicles, automobiles, but the use of transit. And we have found this to be a significant improving factor as far as transit in the air quality of our region.

Mayors have been before you before asking for substantial support and assistance, and I think that we as members of the local elected officials probably this year are asking not so much for additional money but to be able to maintain the freeze and level that we are currently experiencing.

As we work through the Federal budget and the impact on a local level, what is going to us is that we were going to have to be able to solve problems on a variety of different kinds of impacts. Transit is only one of the significant.

We are willing to take our fair share, but I think that it has to be a fair share. The approach—as far as the developments and the growth of the budget and that which is supported to the local area, I think it is a good concept. It keeps us at the same level as what we have experienced. At the same time, we are able to work out from innovative ways to continue to be able to provide the services that are demanded in our local area.

I appreciate the opportunity to appear before you, and indeed, am willing to respond to any questions that you might have.

Thank you very much.

Mr. **Anderson**. Well, thank you, Mr. Sutherland. We are going to have to go vote right now. We will be back in about 10 minutes. We do have some questions for you and we will get Mr. Young first, then we will ask the questions, so if you can bear with us for about 10 minutes we will be right back.

Mr. **Sutherland**. Indeed, we shall.

Mr. **Anderson**. We stand in recess.

[Short recess.]

Mr. **Anderson**. We will now hear from Carl Young, county executive of Broome County, NY.

Carl?

Mr. **Young**. Thank you, Mr. Chairman.

You have my prepared remarks, and I will vacillate between them and extemporaneous comments. The first vacillation will be to tell you where Broome County is.

Mr. **Anderson**. That would be helpful.

Mr. **Young**. It is an upstate New York county of about 200,000 people with a mix of predominantly urban and suburban communities, but also a population of about—about 15 percent of our population is rural as well. We are situated directly south of Syracuse, situated on the Pennsylvania border.

It is a pleasure for me personally and I know NACo appreciates the opportunity to appear here to discuss the Federal role in an intergovernmental system, and I think that is our main concern is that it remain an intergovernmental system of surface transportation services.

Like my colleagues, our organization supported the Surface Transportation Act in 1982, not because we agreed with everything in it, but because we felt that it did meet very critical needs. It was good for the country. It represented workable compromises among the levels of government, the modes of transportation, the various interests, and we continue to support the Surface Transportation Act of 1982.

We are concerned about what is perceived, among our rank, as being a growing devisiveness, some contention surrounding the taxing and funding relationships among all of the participants.

County governments have traditionally played a very central role in the construction, maintenance and provision of transportation systems and services throughout this country. Everyone is reasonably familiar with the county role as it relates to roads and bridges. In over 40 States, county governments are the major construction and maintenance provider of road and bridge programs.

We have an affiliate, that is the National Association of Counties, the National Association of County Engineers, which has been active for 50 years in promoting local road and bridge standards and policies.

Prior to the passage of the legislation in 1982, NACo and NACE were very instrumental in identifying the then and the continuing crises in our bridges, the condition of our bridges in this country.

Through the efforts of this committee and its leadership, we have now had more resources to address and make the necessary repairs and replacements in some of these old bridges.

In mass transportation, the county governments are very much involved in planning and providing regional transit services. Mass transportation is often considered to be essentially the domain of cities, and certainly many of our cities are the main providers of mass transportation services. But, in point of fact, county governments are playing an increasingly large role in the provision of regional mass transportation services.

In order to be effective, in order to be cost effective, they must be coordinated and integrated on a regional basis. As you know, Federal transit funding is provided to areas over 50,000 population through section 9 program and to smaller areas through section 18. Since county governments themselves are regional governments, we are ideally placed to provide the coordination and integration of these services.

In Broome County, for instance, the county itself plans and operates the regional transit system. The county maintains over 300 miles of local roads, 108 bridges, and we operate our county airport. Because of this, we are in the position, we feel, to provide a coordinated, balanced transportation system that serves the needs of all of our citizens and includes special groups like the handicapped, the elderly, and economically disadvantaged.

As it relates to the handicapped, I would point out that in the last 3 years we have instituted a dial-a-ride handicapped transportation system which has gone from zero riders in 1982 to 30,000 in 1983 to 45,500 in 1984, with tremendous pressure on us to increase that service in 1985 and beyond.

I would like to speak briefly to the NACo position, vis-a-vis the Federal budget. We recognize the need for a long-term deficit reduction program, long term. County governments are willing to take their fair share of necessary budget cuts even though we feel we took a disproportionate cut in 1981 and since. But we want all budgets to be treated fairly. NACo believes that the fairest approach would be an across-the-board freeze on all programs at 1985 levels except for means-tested entitlement programs such as Medicaid and AFDC. This is similar to the position of the two previous speakers.

All other programs, including defense and social security, should be subject to this same freeze. If this approach is not enough and Congress must cut further in domestic programs, then NACo has listed its priority programs which should be immune from further cuts. These priority programs, which are agreed to be most effective and important to county governments are as follows: First, general revenue sharing; second, Medicaid; third, community development block grants; fourth, programs for rural areas; and, fifth, mass transit.

If I may digress from my prepared remarks for just a moment. When we talk about taking our fair share of the cuts, I want to underscore we have been doing a pretty good job of that already.

In Broome County, from 1984 to—I am sorry—from 1981 to 1984, we have increased the fares in our transit system, we have increased the tuition at our community college, we increased dramatically our reliance on user fees. We anticipate another fare increase in our transportation system.

Notwithstanding these measures and tremendous management improvements that have allowed us to do more with less, we have still been forced to raise the property tax by 60 percent over the last 4 years. If the cuts in Federal revenue sharing and mass transportation alone are approved, it will require another 16 percent property tax increase for us in Broome County.

If the Medicaid cuts are also approved, it will mean that Broome County taxpayers will be picking up an additional 25 percent property tax increase. This is before we address such concerns as our contractural obligations to our employees and our bonded indebtedness.

What we feel is happening is a transfer to the property tax base, the funding of the Federal deficit. And what this is going to do is make impossible both financial and politically the undertaking of innovations and the necessary kind of practices to enable us to run county governments better and to provide services better to our constituents.

In the area of mass transportation, the fact that we include mass transit among our top five priorities shows how important this program is to county governments. We believe strongly that transportation is a vital component in any community's ability to grow, to be viable economically, and to be efficient in commerce. With population growth, increased density in urban and suburban areas, and the need to keep our environment clean, mass transportation is an increasingly important element in our Nation's overall transportation system.

NACo believes that mass transportation is a national as well as a State and local priority. Energy savings, cleaner environment, less congestion, economic growth and efficiency are all part of the rationale for a strong transportation system. Reductions in Federal systems for mass transportation on the order of the administration proposal would, in our judgment, be an inappropriate and devastating withdrawal of the Federal Government from an intergovernmental partnership which has served us well.

Fares will have to be increased dramatically, services reduced or local taxes increased. In Broome County, all three of those will be necessary.

We believe that these cuts would virtually eliminate mass transportation services in many communities, particularly the smaller metropolitan areas. I would add, too, that there are some hidden costs attached to this. While we may be saving money in the transportation area, we know in Broome County that a substantial number of our lower and lower middle-income people who work rely on mass transportation. If we are forced to reduce services and some of those routes are critical to some of these people, we are going to wind up paying for them in our social services department. So, a few thousand dollars saved in transportation may very well result in tens of thousands of dollars spent in Medicaid, AFDC or whatever.

If the current system is not working, if it is unfair and inefficient, then let's work together to fix it. Let's not just allow the Federal Government to withdraw from the field under the guise of balancing the Federal budget.

If Federal Government decides that transportation is strictly a State and local responsibility, then return to us a portion of the Federal tax base which has funded the program. It is simply not fair for the Federal Government to abandon mass transportation and expect State and local government and the private sector to make up the difference.

In the area of highways and bridges, as you know, the major problem in the highway program has been Congress inability to pass an interstate cost estimate. We congratulate you and the Members of the Senate on the recent action to pass the necessary legislation to overcome this problem.

We hope that in the future, a system will be put in place which will enable the Congress, the administration, and State and local government to not get tied up in this kind of a log jam. We certainly don't seek to choose sides in the disagreements between the House and the Senate. We only implore you to help develop a system which will assure the steady flow of revenues to State and local governments.

Looking ahead, we urge you to consider our resolution on highway and bridge program reform which is attached. With a scheduled completion of the interstate system in the early 1990's, we should turn our attention to the needs to replace, repair, and maintain other systems.

Defining the appropriate roles of the Federal, State, and local governments in the future highway and bridge program is a legitimate issue. Our strong belief is that we should start that discussion now involving all levels of government in open and rational process, acknowledging that such a process to be successful will require many months of dialog and negotiation. We must let these decisions become the victims of last-minute budget federalism.

With regard to the whole concept of New Federalism, county governments were outspoken in their agreement with the need to take a look at the relationships among the various levels of government. Our concern today is that transportation seems to have been singled out by itself as the area to address what is properly a local and what is properly a Federal responsibility. It's my feeling and the feeling of NACo that if we are going to address New Federalism, let's look at the entire range of government services.

I could accept a larger role in mass transit funding for my taxpayers if we were not being called upon to substantially finance Federal and State programs in social services. There is nothing that local government officials can do about interest rates, about inflation rates, about those factors which drive the national economy and influence what happens to our social services role. And yet we are paying a substantial share of that.

If we are going to address the issue of who has the proper role in what level of service, let's make sure that we include all of the areas of service that are part of governmental responsibility.

In conclusion, we believe that it is important to maintain and perfect the intergovernmental partnership which has created one of the best surface transportation systems in the world. It is important to maintain a strong Federal role in this process, and an appropriate balance among the various transportation modes, the testing of new approaches and technologies for transportation services, and fair treatment of all regions of the country and proper balance between national objective and local flexibility.

NACo stands ready to work with you in reestablishing a national consensus on these issues and playing a responsible role as an intergovernmental partner in that process.

We are increasingly concerned that the coalitions and consensus necessary to go forward in maintaining and improving our vital transportation systems are breaking apart. While we are fighting among ourselves about the way public transportation services are provided, we are placing at risk the programs and services our people have come to expect and upon which they depend.

Mr. Chairman, NACo and I appreciate this opportunity to appear before you, and, like my colleagues, we stand ready to answer any questions you may have.

Mr. ANDERSON. Well, thank you for your presentation.

Now, I have some general questions I would like to have each of you think about and answer, if you would like. So, I will just address them to the three of you.

First is, the administration believes that operating costs are essentially a function of local decisionmaking. If you decide for yourself what your costs will be when you decide such things as hours of service, the addition of routes, and when you go to the bargaining table to negotiate new contracts with your employees. As such, they feel that you should bear the costs. How do you respond to that line of thinking?

Mr. YOUNG. I don't totally disagree with that. On the other hand, the administration's position is undercut somewhat by their intervening against the interests of local government in the San Antonio case which ultimately will have a significant impact on the cost of services and salaries in the providing of transportation services in our communities.

This gets to the point that I addressed earlier. I think if there is something wrong with the formula, let's address the formula rather than dismiss the entire service as somehow not being within the purview of the Federal Government.

Mr. SUTHERLAND. The operating costs in Pierce Transit are a significant portion of our expenses, particularly ongoing expenses.

I am a small businessman myself and I do the duties of mayor as a part-time job, somewhere around 60 or 70 hours a week. But, if you go through any kind of an operation, trying to run it so that it is efficient and cost effective, operating costs are the one you look at, probably on a day-to-day basis, more than any other. So, if you lose the ability to be able to function, the impact on the other aspects of it, obviously, is right there in front. So, when you consider a nonshared capability on a product that is a service as opposed to a product that is a consumer item, the impact of the Federal Government and the State government on the kinds of services that you are mandated to do, then the approach on how you handle operating costs is significantly different than you would if you were operating on a product basis. When the product is service as opposed to pieces and goods, the rules of the game are substantially different. And you have to consider it in the light of those rules as opposed to the light of the normal demands of the marketplace.

Mr. **Bolen**. Now, Mr. Chairman, I think, saying the same thing in a different way, as long as the Government mandates, roughly, a fourth of what we have to do, then it looks to me like they have to have some responsibility in helping us do that.

Now, if you tell us at the local level, "You can run a system any way you want, with any funds you'll put up," that is one issue. But that is not what we are all confronted with. We are confronted with regulations and doctrine that says, "You will do this, you'll do this, you'll do this this way," and like we just heard, the Garcia case in San Antonio impacts on that from a different part of Government, and at the same time says, "We have no responsibility how you would do this." Then they are not congruent with each other. That is where we have our problem.

We can, at local levels, in many cases, take care of those needs if we have the right to decide what those needs are. They have got to go hand in glove is what we are all trying to say in one way or another.

Mr. **Young**. Mr. Chairman, if I may add, Federal actions have, indeed, affected those operating costs. In the late '70s when DOT got in the business of designing buses and stipulating the kinds of standards that had to be met, one of the consequences was a reduction by nearly 50 percent of the gas mileage that we got in our buses, and the tire life on our buses. So, those operational costs have been affected by actions taken here as well.

It is a partnership that needs to be sustained.

Mr. **Anderson**. The next question is something along the same line, but a little different subject.

Now, the administration thinks that if a program is not supported by a user fee, the Federal Government ought not to support it. Now, it occurs to me that within your own communities, your taxpayers pay for services they don't directly use. Now, how do you argue the administration's thinking on this? That is the user tax.

Mr. **Sutherland**. Well, we do have a user fee. That is a significant aspect of the local share of this thing. The partnership that we have been able to build. Basically, the user pays a fare when he gets on the unit. The taxpayer pays a part through the sales tax. The person who drives his car supports the system through part of the gas tax, State gas tax.

I think that if you look at the user fees of this thing, even at that, we have a substantial addition to the system from everyone, not only who uses it, but who benefits from it locally. But, even at that, to be able to support the overall cost of this system, that's not enough. If you take away that $1.8 million that is going to impact my system, then I have to go somewhere else to get that or drop parts of the system. I can't do both.

Mr. Bolen. Mr. Chairman, there's a correlation that has been very, very difficult for me to convince some of my colleagues at home, and that is that if you immediately put all the public transit riders on the street today where we are having massive road construction programs as it is, then those demands go up.

In other words, there is certainly a correlation between less demand on our road funds with public transit funds. And we have never been able to convince the average public that they are related to each other. If I take a bus with 64 people loaded and put them in 1.3 persons per car, which is what we average and put another 40 cars on that road today that is already staggering under the load they have, then we are going to have a different cost. It may be in road construction, and it may be significantly higher, but we are still going to have the cost. So, cutting one does not necessarily mean we are not going to have the other.

In Fort Worth, we have just gotten through on the southwest freeway, a quarter that we are looking at, talking our developers out of $60 million worth of free, dedicated land. We have sign-offs on that. It is a major breakthrough down there that they are going to pay for the right-of-way rather than purchase it. So, we have participatory funding for these coming locally and either the landowners are going to benefit, because they go through his area, or the people are going to ride on the buses or the people are going to save building more construction of highways or whatever. It is a meld of all those put together that we are trying to do.

The problem still is that we are under so many mandated requirements. As long as we don't have any funding to take care of those, then we are, on the one hand, tied to what we have to do with no way to do it beyond what we are all innovatively trying to do. Not only is that dedicated right-of-way true in Fort Worth, I know that Congressman Andrews has given a great deal of right-of-way in his area. San Antonio has done the same thing. DFW has had the same thing to the tune of several hundred million dollars in the last year. So, we are getting other ways to get contribution into this system.

Mr. Young. Let me just build on that, if I may, Mr. Chairman. There is clearly tremendous public benefit. I personally am not a transit user except when my car fails me as it has the entire week I've been here in Washington. I benefited greatly from your mass transportation system. But the fact of the matter is my easing congestion, by easing air pollution, we are performing a public service. By enabling our low income to get to jobs so that they can stay off welfare and not be tax consumers, the public as a whole is benefiting from this system.

Clearly, we could not expect the handicapped, by themselves, to bear the cost of a handicapped transportation system. All of the services that Government provides respect the fact that there are some constituencies that will get more benefit from one service, and other constituencies which will get some benefit from the others. The question is, does it need an overall community need, and the answer is clearly yes. Especially if it applies to mass transportation.

Mr. ANDERSON. What would happen to the economic faith in your community if transit services were cut to the extent that you say would result from the proposed cut?

Mr. YOUNG. I cannot give you a specific number. I can tell you several things that are likely to happen. There is likely to be less service and higher taxes, neither of which is good for our long-term economic attractiveness as a community.

The decrease in the overall transportation figure will simply compound it from an economic development standpoint. I think we need to bear in mind the transit is not the only area that we feel is under siege.

Mr. SUTHERLAND. Time is money, Mr. Chairman, and I think if we were to reduce service of transportation systems, and you put all of these folks in other vehicles, the amount of time that you spend going to and coming from work, and the ability to be able to access within the areas of your workplace. If you work in a metropolitan area and you have to go from one place to another and the shuttle goes through, and you can just grab the shuttle and zip down to the Metro, and you take a quick ride over. If those services aren t there, those people still have to function in the manner that they do in the workaday world. So, these folks are going to be impacted by it, and the cost of being able to do business is going to be severely, I think severely, impacted.

When you have even secretarial help whose annual pay are in the $15,000 to $20,000 a year range, even the least expensive of your employees, if they are out stuck in a traffic jam, they are still going to cost you the same hourly cost. This is a different kind of an approach, I think, that we have to think about. It is a peripheral cost, but still part of the whole.

Mr. ANDERSON. During the passage of the Surface Transportation Act of 1982, the National League of Cities, and the U.S. Conference of Mayors supported the legislation after securing assurances from the administration that the increased revenues generated by the 5-cent gasoline tax would supplement not supplant general funds support for mass transportation programs. However, for fiscal year 1986, the President's budget requests a level of $1.1 billion for the Formula Grant Program out of the mass transit account.

Is there a consensus of the panel as to the appropriate level of transit funding for fiscal year 1986?

Mr. YOUNG. Mr. Chairman, I think all of our organizations have agreed that we could accept a freeze at the 1985 level.

Mr. BOLEN. Mr. Chairman, as you heard from the other testimony, we passed authority 2 years ago also at a quarter cent sales tax to help fund, offsetting the figures that we were losing. That automatically jumps to a half a point in 3 more years, so along with that, helps us through this period where we knew we were losing funds. The issue, of course, is if we will accept our fair share and stay at the level that we have been, we can probably handle that. It is the cuts below that that are beginning to bother all of us in different systems and will affect each of us in different ways.

The other issue is that cost back and forth between highway construction and transportation costs. One of the things that we have been on record from Fort Worth for and the metropolis as a whole is that we don't care in that particular category whether it is operating or capital, but we need the right to be able to move that from one side to the other, and not to be restricted, because in one issue we may not need the capital now, we may need more later, but we can manage that if we know what that is. And all of us are saying here today, if we leave that and cap it at the level that we had last year, we may not like it but we can survive on that, I believe.

Mr. ANDERSON. So that I can kind of clarify it. Now, the 1985 amount was $4,152,000,000. You'd like to have it frozen at that. The administration is proposing a $1,376,000,000. In other words $2.8 billion less than what the 1985 level was, as you would like to see it frozen at; is that what you are saying?

Mr. YOUNG. What we are saying is, we can live with the freeze.

Mr. ANDERSON. You can live with that, the 4.1, but you can't live with the 1.3 which the administration is recommending?

Mr. YOUNG. That is right. For Broome County, that would mean reduction in service as well as increased fares and increased property taxes.

Mr. ANDERSON. Now, are the cities and counties in a financial position to raise additional revenues for operating assistance, and can you explain the revenue sources available to cities and counties for mass transit operations?

Mr. BOLEN. Well, my answer, sir, the only thing that we have now is the sales tax that we have already dedicated, that is a dedicated fund of a quarter of cent, like I just said. And it will go up to a half cent in the election that the constituents voted on that 2 years, it will automatically go to a half cent 3 years from now. But when they did that, they took it off the property tax rolls. The property tax no longer pays for that. So, I only have three areas. We have assistance from the State and Federal level. We have our own sales tax level, and we have the fare box. We have increased significantly both of our ends of that in the last 3 years, so we are already substantially increasing the funds that we have available. How much more can we do? I don't know, I couldn't tell you that.

I will say this: That it significantly impacted the number of riders the last time we had a fare box increase. And when we do that, it is counterproductive and the costs go up rather than down, unless we cut the routes themselves.

Mr. SUTHERLAND. Mr. Chairman, there are limited resources in the local area. We currently have a motor vehicle excise tax. We use sales tax, part of the overall sales tax, of which in my community is 7.8 percent. And we could probably increase that somewhat.

We have probably could access into property taxes, but I would imagine that at the level of $16.85 per $1,000 that we are already at in the property tax in my community, that it would be very difficult for me to increase that any more than that, and stay alive.

I think that we have almost reached the end of our innovative, creative ideas as to how to shake additional funds from the local members of our community. We have been pretty good at it, but I think that we have come almost to an end.

Mr. YOUNG. I have to agree with the mayor, we have done that already. We have increased our fares and we anticipate another fare increase, but more to the point, we have increased property taxes by 60 percent over the last 4 years. I think we cannot look at just transit as an area of concern. Just three items in the proposed administration budget will force us to raise property taxes by an additional 25 percent before we address our contract obligations to our employees and before we address our debt service.

If revenue sharing is eliminated and mass transit is cut, and the Medicaid proposal goes through as it, we are confronting at least a 25-percent increase in property taxes, and can we raise more money? It can be done. May we? I doubt it, because our taxpayers are going to say, "Enough." And what our—if I had one theme, one drum that I would want to bang, it is that the property tax is not the proper way to pay for the Federal deficit. And that is what is happening with these kinds of cuts.

Mr. Bolen. Mr. Chairman, there's a couple of areas like Charlotte, NC, that I read in the prepared remarks, that are mandated by law that they can't raise it. So, there are some areas that you say, "Well, will you take care of it locally?" You may not have the option to take care of it locally. So, that has to go in the formula also.

Mr. Anderson. In both the urbanized and nonurbanized areas, the elderly and the handicapped patrons depend on local transportation services for their transportation needs. Now, how will the elimination of operating a systems and section 16(b)(2) funds affect your ability to provide transit service for the elderly and the handicapped.

Mr. Bolen. Well, in my case, Mr. Chairman, it will affect it. We are already—we have had a coalition of all of the private-sector providers just recently, 2 weeks ago, in fact, and we are trying to get out of the duplication business with Easter Seal and American Red Cross and the Cancer Society and all those groups. Eliminate duplication of services for the handicapped, the elderly, et cetera, so that we have one unified program, because we know the duplication, even in dispatching, is expensive. We are moving toward that in many ways, contracturally as well as cooperative ventures between them, but there is no question that there is a point where you cannot reduce that anymore and still take care of the cost of transporting those people. In many instances, certainly in the handicapped area, they absolutely have no other way to go if they are not living with their family or some other person that can take care of that. They are not wanted on the street even if they have the money. So, it would impact severely if we can't find another way of a coalition so that we can get all of the providers in our area to do that. And we are in the process of doing that now.

Mr. Anderson. In view of the President's budget request for mass transit funds for fiscal 1986, would the members of this panel support increased user fees at the Federal level to maintain the existing funding levels.

Mr. Young. Mr. Chairman, this specific issue is not addressed by NACo as an organization. I can speak for myself and, I think, to a certain extent our track record with regard to the Surface Transportation Act of 1982 is an indication of our willingness to consider this.

Personally, I think that this is a proper direction to go in developing a fund from which mass transit can look for continued assistance.

If I may just go back to your previous question. Our service for the handicapped, as I indicated earlier, has gone up by 50 percent in the last 3 years. The demand is greater than we have been able to meet at this point. Loss of revenue for us is going to mean the curtailment of expanding this program which has made many handicapped people now employable and put them to work in our community.

Mr. **Sutherland**. The Conference of Mayors was responsive to the use of user fees. We also understand the practical side of trying to put that in place.

We think that transportation, as part of the whole, should share not only from user fees cut also from the general funding of government as a whole.

I think that in order to be able to out this in place would be difficult, but I also would be willing to help put that in place.

Mr. **Bolen**. Mr. Chairman, Fort Worth was on record with a resolution supporting not only the State increase in the gasoline tax, but also NLC's; one of the first cities to do so. I don't have any authority other than my own, feel that they would continue to do that, and it is a proper—certainly now with gasoline at some of our pumps right now down as low as 95 cents last week. Timing is important to everything, there is no question about that. But, we have been there, and one of the concerns, I think, all of us would have is we dedicated a fund before and that is exactly what we are seeing dissolve before our eyes today. I get concerned about dedicating funds and in 24 months coming back, not only looking to dedicate some more, but protect the ones that we had dedicated the other time.

So, yes, I think that most of our constituencies are willing to pay user fees and taxes to do that. It is a proper way to provide the funds, but on the other hand, provide the funds for the services that we are going to tell our constituents we are trying to get for them.

It is not easy for any of us to go back home and say, "We are advocating doing this." And it is certainly much more difficult for us to do it and then see it dissolve in midair 24 months later.

Mr. **Anderson**. Mr. Shuster?

Mr. **Shuster**. Mr. Chairman, I have no specific questions. The panel has been thorough, but I would ask a general unanimous consent that all members have 5 days in which to submit written questions to all of the witnesses who appear at these hearings.

Mr. **Anderson**. No objections? So ordered.

Mr. Andrews?

Mr. **Andrews**. Thank you, Mr. Chairman.

I want to thank all three of you for being here this morning. I applaud your efforts and am very appreciative of the comments that you have made, specifically my friend from Fort Worth, my old home town. I am glad to see you this morning.

Mr. **Bolen**. Mayor Sutherland just left, and he said he was sorry he didn't see you.

Mr. **Andrews**. I understand.

Two of the points that you made in your statement, I think, warrant going back over again. The first is your idea of an across-the-board freeze, which I think has great equities and should certainly merit our consideration. This is a perfect example in the area of mass transit spending and how it affects cities the size of Tacoma and Fort Worth.

While we should consider a freeze in domestic spending that is more equitable than that that has been proposed by the administration.

And, second, the third point that you make that I think is an excellent one, and that is your suggestion that before we increase spending, we should go find the revenues to pay for them. That should not be new news to Members of the U.S. Congress. Amazingly, it is.

The idea of paying as you go is relatively new, and I think merits—has great merit. And, in this Congress, I think, will be seriously considered by Members. They are concerned about new programs that are initiated without adequate funding to pay for those programs, and the concept that before we start any new kind of proposal, whether it is in the area of defense or domestic spending, we need to find the revenues to pay for those programs.

In particular, Fort Worth has some unique problems as cities like Tacoma has as well, and I am curious how Fort Worth intends, assuming these cuts, as proposed, are enacted by Congress, will meet its immediate demands in the coming months. In particular, there is a very ambitious proposal to expand the Southwest Freeway from two lanes, which is terribly outdated and outmoded, outlived its usefulness, not unlike the same kind of freeway problems other cities around the country are facing.

And, second, there is a major bridge in Fort Worth, around North Main, that's probably about 40 years old, more or less, that is in great need of repair and is deteriorating, and I am curious if I could just ask you to comment on those two specifics, because I think they both are illustrative of the comments that you have been making in general. How is Fort Worth going to respond to those two problems, and how are other cities of similar size going to respond to the immediate problems of bridge deterioration and projects like the Southwest Freeway that are now already initiated, they have been started, work is being done on those freeways, traffic is congested because of the work. What is going to be the response, if within the next 6 months this budget is approved?

Mr. BOLEN. Well, of course, Congressman, in the reverse order, the bridge that you are talking about is over North Main. It is a historical marker bridge. It is one that we found out quite by accident during a routine inspection, the stanchions were completely eroded and were not safe at all. We closed it from four lanes—well, we closed it totally, and it is one of the only ways to get to the North Side, as you know. Four months later, after spending substantial, well over a half million, on the initial work, we got it up where we could open up two lanes, and that was very, very helpful for us.

We had a briefing on it Tuesday of this week. It will be in the vicinity of probably $3 million to fix it totally, and the way we anticipate having to do that is to put it on a capital front improvement program, bond election, and let the citizens vote on it. We don't have any other way to handle that.

In that particular instance, our voters will probably say, "Yes," because it is a vital bridge for moving around the city of Fort Worth. And the Southwest Freeway instance, and the expansion of the Southwest Loop, I think you will find that through the commissioners' leadership, Mr. Lanier from Houston, and the other people on the commission and/or developers, that a very large, innovative approach that has never been done down there certainly, I don't know around the rest of the country, that we went to the landowners that were going to benefit by that and we said, "Look, if you are going to benefit by the development along that corridor, which you will and you know you will, then we need that land. And we are not going to buy it anymore, because we can't build it if we don't have some way to do it." And we got, by conservative estimates, $60 million worth of dedicated land for that freeway that we could put into the fund. It is already there, signed off, et cetera, and now we are waiting to match that with Federal funds, county funds, right-of-way funds, our own city funds, to start the side roads to it, service roads, as well as the engineering construction on that corridor itself.

By the time we are through, we will have a participatory funding of almost $100 million on that that is exclusive of local, city, and State funds besides Federal funds.

When you take the Federal funds away, all the contingencies that we have on that dedicated right-of-way was that we had to do something within a 7-year time frame, because the developers had to have some idea which corners to build to, what the boundaries were going to be, so it is a significant breakthrough in how we fund roads in our area. But, we have to get on with it, and without Federal funds, we will lose all that other dedicated right-of-way funds that we have been given.

So, we are matching the private and the public sector together, but that means the public has to respond with their part as well as the private sector, and that is the fear we have, not only losing the funds that they are going to give us, but losing the funds that the private sector in Fort Worth are going to donate to that project.

Mr. **Andrews**. I appreciate your response, and, again, I thank all three of you for being here this morning.

Mr. **Bolen**. Thank you, Congressman.

Mr. **Anderson**. Mr. DeLay?

Mr. **DeLay**. Good to see you, Mayor.

Mr. **Bolen**. Good to see you.

Mr. **DeLay**. You made a statement earlier, that because of the mandated Federal requirements, 25 percent of the transit operating costs were caused by Federal requirements. Could you document this for the record?

Mr. **Bolen**. I can't document it in my instance down to that, but I can document it very closely. In IMSDS alone, which is our impaired service delivery service, we had to provide services awhile with a lift that wouldn't work, but we had to buy them, and we had over 1 million dollars worth of construction put on our buses and none of them worked. And we told everybody they didn't work. Even the supplier told us they wouldn't work, but we had to put them on because they were federally mandated.

We have to provide impaired and handicapped service for our people in the area who they want to give basically the same service that we provide the rest of the citizens, and that, in Fort Worth, is growing like the county will say, "Far faster than our average ridership is." Not because people are deciding to use it more, that's true, too, but because our constituency is aging more all the time. We are getting more people over the 60 age limit continually in Fort Worth.

A lot of people don't realize it, but it is the second largest military retirement center in the State of Texas, and one of the top 10 in America, next to San Antonio. So, that is impacting that. And then other regulations we had, not including the last legal opinion that we had thrown at us two weeks ago from San Antonio which will materially affect what it is going to cost us for our drivers, or we have to find ways to go around that.

All of these programs are set in place, not by us, including, which we didn't mention before, also, and we agree, including the quality of the bus, the type of the bus, and so on and so forth. So, we are buying and matching up and doing things that normally the private sector doing the same business might not do. The private sector can't run it, it doesn't make money, we know that. But, at the same time, we know that in certain instances we can do a better job locally than some of the mandated requirements that we have on us. Not always.

Mr. DELAY. Mayor, all I'm asking is, could you get your staff to—

Mr. BOLEN. Yes, I would be glad to do that.

Mr. DELAY. I would like to see those kinds of programs, if you don't mind.

Mr. SUTHERLAND. Congressman DeLay, Dutch Morial, who is the person at the U.S. Conference of Mayors, and staff at the U.S. Conference of Mayors, has been working on a large survey relative to transportation matters, and that survey is now in its final stages and it should be available for release tomorrow, and we would like to also submit that to you and members. Mr. Chairman, if we may, members of the committee so that they are aware of the findings that we have been able—and it relates somewhat to that as well. Thank you.

Mr. DELAY. Thank you, Mr. Chairman.

Mr. YOUNG. Mr. Chairman, if I may build on the mayor's comment, too, that there is a silver lining as it relates to that issue of handicapped transportation, because in 1981, the Federal Government did take a positive step forward, and we in Broome County were fortunate because we had resisted the wheelchair lifts as being too expensive and not really providing service for our people, and when the Department of Transportation changed their regulation to simply say, "You must serve the handicapped, you must dedicate a percentage of your transportation dollars to handicapped services," and left it to the localities to decide how to go about that. We have, in Broome County, developed a system which serves far more people than the mandated system ever would have at a substantially-reduced cost. It is not unlike the whole concept of revenue sharing, only in this case, the command that you shall serve the handicapped, do it in a way that suits your community's needs.

Mr. ANDERSON. Mr. Rahall.

Mr. RAHALL. No questions, Mr. Chairman.

Mr. ANDERSON. Mr. Savage.

Mr. SAVAGE. No questions, Mr. Chairman.

Mr. ANDERSON. Mr. Moody.

Mr. MOODY. Thank you, Mr. Chairman.

Mr. ANDERSON. I knew we wouldn't get by——

Mr. MOODY. Thank you.

It is my understanding that the three for two trade-in of capital for operating has expired. Now, if the Administration has its way, which I hope they don't, by canceling all operating assistance altogether, it would be a moot question, but assuming we resist successfully, and I hope we do, do you like the idea of the three for two trade-in which gives flexibility between operating and capital expenditure depending on the most pressing need of the transit agency in question?

Mr. SUTHERLAND. Mr. Congressman, really the U.S. Conference would tend to buy into that concept so long as it gives us the local option of being able to put it where it is best placed.

Mr. MOODY. Right.

Mr. SUTHERLAND. As you know, sir, Mr. Chairman, systems are really different throughout the United States. The city of Tacoma doesn't have snow like Minneapolis and some places like you are familiar with, so that as we access different parts, systems in our area are different. We don't have to have the snow removal requirement that other places do. But I have got some pretty steep hills, and so I have to buy a different kind of a bus. So, in order to be able to utilize so that we are able to match it with the peculiarity of our own system and have the option to do that, as long as it is prudently done, we would tend to buy into that.

Mr. YOUNG. That is consistent with the county's position. In fact, at our annual meeting in Seattle last year, we adopted a resolution confirming that.

Mr. MOODY. Let me take it one step further. Would you expect that your associations would support a block grant that would allow—assuming that there is no reduction in the amount of money, but a block grant that would allow total freedom as to where you wanted to put the money? In other words, can a three for two make it as a one for one or a three for three, if you would, switch back and forth depending on where your needs are the greatest? Right now you are penalized if you move it from capital to operating. Would you support total flexibility between the two?

Mr. SUTHERLAND. Congressman Moody, I would tend to say yes, so long as you don't whack off one on the other.

Mr. MOODY. I mean if you keep the money whole?

Mr. SUTHERLAND. Yes, yes, yes.

Mr. MOODY. A different, but related, subject: In my community of Milwaukee, we thought we could save a lot of money on delivering our elderly and handicapped service by using the private sector. We tried the kneeling buses, and ramps, and all kinds of things, and in our climate they jammed up, they didn't work. People would sit in wheelchairs in the cold waiting for a bus to come along. It was not feasible. It was extremely expensive. We then changed to a user-side subsidy program, which I am sure you both are familiar with, and we cut the costs dramatically per ride and improved service dramatically because it is essentially a taxicab doing it, which is a dial-a-ride system, in effect, and the rider pays the first dollar and then the county pays the rest. There is a case where we are using the private sector. Do you have any comments on whether or not you support that sort of thing, using a private service, a private-owned company, to fill in these kind of gaps?

Mr. SUTHERLAND. Congressman, we already do.

Mr. MOODY. Do you support privatization in that sense of delivery?

Mr. SUTHERLAND. As much as we possibly can, wherever we can reduce costs and be able to show that it is cost-effective in that way, yes. But you have also got to be very careful on how you do that, because if you place too much emphasis on the private sector side, changing scenes in the economic patterns overall would leave you then exposed if that particular private sector service disappears for other reasons.

For example, if we put all our eggs in the cab service, and for one reason that we had no control over, that cab company went out of business, and in my city there are only three cab companies, then I'm left having to recoup my losses by trying to find some other method to be able to deliver those same kinds of services. So, you have to be careful with how much emphasis you place on either the public or the private sector. But the cooperation and the partnership make sense, and when it is prudent and when it is cost-effective, do it.

Mr. MOODY. In my city, any cab company is eligible, so unless all cab companies went out of existence simultaneously that wouldn't be a problem for us, but maybe that wouldn't be true in some other cases.

Mr. BOLEN. Congressman, we are continually looking at better ways and cheaper ways to provide the same service, and that certainly is one of those. We are also, as I said before, looking and working continually with the United Ways service providers to do that. In just one instance which we are trying to analyze right now, we know that duplication of just dispatching goes on over and over again. It would certainly be cost-effective if we could unify that, and that is ongoing now, and it may happen. So, we are supportive of anything that would deliver the services in a good way to the people who need it and at the same time be cost-effective and reduce our costs. We are looking at that. We have to.

Mr. MOODY. Right. So, you would support that?

Mr. BOLEN. You see, the exact rules that we are talking about, I want to make sure that we can utilize them and that there are not so many strings on it that it negates the benefits we get.

Mr. MOODY. All right.

Mr. BOLEN. And we find that happens many times, to speak very candidly. We find some of the things are very good, but when you look at all the caveats tied to it, really, we lost more than we gained, so, the concept, yes, we would be supportive of looking at and trying to use. We are now to a certain extent.

Mr. MOODY. Thank you. Perhaps, the final witness could add to that.

Mr. YOUNG. Yes. In our county, the dial-a-ride and handicapped system is done under contract with a private operator and we are currently in the developing stages of the same kind of demand-response system utilizing the cabs as well.

I would agree with my colleagues, however, that while we support the concept, the actual implementation—I guess we would like to develop this concept the same way we approached transportation for our handicapped in the last couple of years.

Mr. MOODY. One last question, if I might, Mr. Chairman.

Right now, my community is doing what the three of you are endorsing in concept, using private sector for E&H. But they are doing it out of operating funds. They are using it on the operating side. They cannot use any of their capital grant money for that.

If you endorse the idea of flexibility between capital and operation, and I think you started out by saying you did, would it make sense to allow the capital funds to be used for E&H in this system, understanding that the private provider also has capital costs. He also has capital costs that have to be met when he provides the ride.

Mr. SUTHERLAND. Part of our survey that Mayor Morial is doing kind of takes a look at that same issue, Congressman, and the idea is intriguing. We really haven't been able to sort through it all to see what the overall impact is going to be, but we are looking at it.

Mr. MOODY. Thank you, Mr. Mayor.

Mr. BOLEN. Congressman, in our instance, I think we are willing to look and work with any of those programs. And, as the mayor said previously, all these systems are different. Frankly, in general terms, the broader the range that you give us and the rules that we have to follow, the more innovative we can be to utilize those funds and deliver those services. Fort Worth, certainly, and NLC, if we can get funds and have them open up to the point that we can move them back and forth and utilize them.

I know of one instance where you had a major purchase of equipment because they had the funds there, and they didn't want to lose those funds, but didn't need the purchase. They could have used it in another area much more productively than the way they used it.

Mr. MOODY. Thank you, I appreciate your answer very much.

Does the other gentleman have a point?

Mr. YOUNG. Well, anything that provides flexibility and also keeps the money there, at this juncture, our concern is just keeping the money there in the first instance, but anything that provides flexibility for the operation of our services is a concept that we welcome, and we will be happy to participate in defining any kind of a program that might evolve.

Mr. MOODY. Thank you very much for your answer.

Mr. ANDERSON. Mr. Lipinski?

Mr. LIPINSKI. No questions, Mr. Chairman.

Mr. ANDERSON. Well, thank you very much Mr. Bolen, Mr. Sutherland, Mr. Young for your presentations.

Mr. SUTHERLAND. Mr. Chairman, on behalf of my colleagues, we would like to express our appreciation and thank you and members of the committee for hearing our comments.

[Mr. Young's prepared statement follows:]

STATEMENT BY CARL YOUNG, EXECUTIVE, BROOME COUNTY, NEW YORK BEFORE THE SURFACE TRANSPORTATION SUBCOMMITEE, HOUSE PUBLIC WORKS COMMITTEE ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES

MR. CHAIRMAN, I AM CARL YOUNG, COUNTY EXECUTIVE IN BROOME COUNTY, NEW YORK AND CHAIRMAN OF THE TRANSPORTATION STEERING COMMITTEE OF THE NATIONAL ASSOCIATION OF COUNTIES (NACO).* I APPRECIATE THE OPPORTUNITY TO TESTIFY BEFORE YOUR COMMITTEE ON THE IMPORTANT POLICY ISSUES OF THE FEDERAL ROLE IN OUR INTERGOVERNMENTAL SYSTEM WHICH PROVIDES SURFACE TRANSPORTATION SERVICES TO OUR CITIZENS.

IN 1982, THE NATIONAL ASSOCIATION OF COUNTIES (NACO) SUPPORTED THE LANDMARK LEGISLATION WHICH BECAME THE SURFACE TRANSPORTATION ASSISTANCE ACT OF 1982. THIS LEGISLATION DID NOT HAVE EVERYTHING COUNTY GOVERNMENTS WANTED, EITHER IN THE HIGHWAY AND BRIDGE PROGRAMS OR IN THE MASS TRANSIT AREA, BUT COUNTY OFFICIALS REALIZED LEGISLATION WAS NECESSARY, GOOD FOR THE COUNTRY, AND A COMPROMISE AMONG LEVELS OF GOVERNMENT, MODES OF TRANSPORTATION AND OTHER INTERESTS. NACO CONTINUES TO SUPPORT THE STAA, BUT WE HAVE BECOME INCREASINGLY CONCERNED ABOUT THE GROWING SPLIT, CONTENTION AND DIVISIVENESS SURROUNDING THE TAXATION, FUNDING AND RELATIONSHIPS RELATING TO NATIONAL TRANSPORTATION POLICIES.

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*THE NATIONAL ASSOCIATION OF COUNTIES IS THE ONLY NATIONAL ORGANIZATION REPRESENTING COUNTY GOVERNMENT IN THE UNITED STATES. THROUGH ITS MEMBERSHIP, URBAN, SUBURBAN AND RURAL COUNTIES JOIN TOGETHER TO BUILD EFFECTIVE, RESPONSIVE COUNTY GOVERNMENT. THE GOALS OF THE ORGANIZATION ARE TO: IMPROVE COUNTY GOVERNMENT; SERVE AS THE NATIONAL SPOKESMAN FOR COUNTY GOVERNMENT; ACT AS A LIAISON BETWEEN THE NATION'S COUNTIES AND OTHER LEVELS OF GOVERNMENT; ACHIEVE PUBLIC UNDERSTANDING OF THE ROLE OF COUNTIES IN THE FEDERAL SYSTEM.

ROLE OF COUNTIES IN TRANSPORTATION

COUNTY GOVERNMENTS HAVE TRADITIONALLY PLAYED A VERY CENTRAL ROLE IN THE CONSTRUCTION, MAINTENANCE AND PROVISION OF TRANSPORTATION SYSTEMS AND SERVICES IN THIS COUNTRY. ALMOST EVERYONE IS AWARE OF COUNTY ROADS AND BRIDGES WHICH LINK THE INTERSTATE AND PRIMARY SYSTEMS TO INDUSTRY, FARMS AND MINES. IN OVER FORTY STATES COUNTY GOVERNMENTS ARE THE MAJOR CONSTRUCTION AND MAINTENANCE PROVIDERS OF ROAD AND BRIDGE PROGRAMS. THE NATIONAL ASSOCIATION OF COUNTY ENGINEERS (NACE) HAS BEEN ACTIVE FOR OVER FIFTY YEARS IN PROMOTING AND IMPROVING LOCAL ROAD AND BRIDGE STANDARDS AND POLICIES. TODAY, THEY ARE AS ACTIVE AS EVER, WITH OVER 1,200 MEMBERS NATIONWIDE. PRIOR TO PASSAGE OF THE STAA, NACo AND NACE WERE VERY INSTRUMENTAL IN IDENTIFYING AND PUBLICIZING OUR NATION'S BRIDGE CRISIS. THROUGH YOUR EFFORTS AND OTHER LEADERS IN CONGRESS, WE NOW HAVE MORE RESOURCES TO REPAIR AND REPLACE DANGEROUS AND OBSOLETE BRIDGES.

IN MASS TRANSIT, COUNTY GOVERNMENTS ARE VERY INVOLVED IN PLANNING AND PROVIDING REGIONAL TRANSIT SERVICES IN LOCAL COMMUNITIES. CONTRARY TO COMMON UNDERSTANDING, MASS TRANSIT IS NOT JUST A CITY PROGRAM. IN ORDER TO BE EFFECTIVE, TRANSIT SERVICES SHOULD BE COORDINATED AND INTEGRATED ON A REGIONAL METROPOLITAN BASIS. AS YOU KNOW, FEDERAL TRANSIT FUNDING IS PROVIDED TO AREAS OVER 50,000 POPULATION THROUGH THE SECTION 9 PROGRAM AND TO SMALLER AREAS THROUGH THE SECTION 18 PROGRAM. SINCE COUNTY GOVERNMENTS THEMSELVES ARE REGIONAL GOVERNMENTS, THEY ARE IDEALLY PLACED TO PLAN AND COORDINATE TRANSIT SERVICES WITH OTHER COUNTIES, CITIES AND TOWNS.

In Broome County, the county itself plans and operates the regional transit system. Broome County also maintains most of the local roads and bridges in the county and runs the airport. Because of this, we are in the position to provide a coordinated, balanced transportation system which serves the needs of our citizens including services to special groups like the handicapped, elderly and economically disadvantaged.

NACo Position on the Federal Budget

NACo recognizes the need for a long-term deficit reduction program. County governments are willing to take their fair share of the necessary budget cuts, even though we took a disproportionate share in 1981, as long as all aspects of the budget are treated fairly.

NACo believes the fairest approach would be an across the board freeze on all programs at 1985 levels, except for means-tested entitlement programs such as Medicaid and AFDC. All other programs, including Defense and Social Security should be subject to the freeze. If this approach is not enough and Congress must cut further in domestic programs, then NACo has listed its priority programs which should be immune from further cuts. These priority programs, which are agreed to be most effective and important to county governments are:

- General Revenue Sharing
- Medicaid
- Community Development Block Grants
- Programs for Rural Areas
- Mass Transit

Please see the attached NACo statement on the fiscal 1986 budget for more detail.

MASS TRANSPORTATION

THE LISTING OF MASS TRANSPORTATION FUNDING IN NACO'S TOP FIVE PRIORITIES SHOWS HOW IMPORTANT THIS PROGRAM HAS BECOME IN URBAN, SUBURBAN AND RURAL COUNTIES. TRANSPORTATION IS A VITAL COMPONENT IN ANY COMMUNITY'S ABILITY TO GROW, BE VIABLE ECONOMICALLY, AND BE EFFICIENT IN COMMERCE, COMMUTING AND DAILY LIVING. WITH POPULATION GROWTH, INCREASED DENSITY IN URBAN AND SUBURBAN AREAS, AND THE NEED TO KEEP OUR ENVIRONMENT CLEAN, MASS TRANSPORTATION IS AN INCREASINGLY IMPORTANT ELEMENT IN OUR NATION'S OVERALL TRANSPORTATION SYSTEM. NACO BELIEVES THAT MASS TRANSPORTATION IS A NATIONAL AS WELL AS A STATE AND LOCAL PRIORITY. MASS TRANSPORTATION PROMOTES ENERGY SAVINGS, CLEANER ENVIRONMENTS, LESS CONGESTION, ECONOMIC GROWTH AND EFFICIENCY, AND REASONABLE TRANSPORTATION ACCESS FOR ALL CITIZENS. THESE SHOULD BE NATIONAL GOALS AND PRIORITIES.

REDUCTIONS IN FEDERAL ASSISTANCE FOR MASS TRANSPORTATION ON THE ORDER OF THE ADMINISTRATION'S PROPOSAL WOULD, IN OUR JUDGMENT, BE AN INAPPROPRIATE AND DEVASTATING WITHDRAWAL OF THE FEDERAL GOVERNMENT FROM THE INTERGOVERNMENTAL PARTNERSHIP APPROACH TO MASS TRANSPORTATION. FARES WOULD HAVE TO BE RAISED DRAMATICALLY, SERVICES REDUCED OR LOCAL TAXES RAISED TO MAKE UP THE SHORTFALL. IN MANY AREAS ALL THREE AFFECTS WOULD TAKE PLACE. WE BELIEVE THAT THESE PROPOSED CUTS WOULD VIRTUALLY ELIMINATE MASS TRANSPORTATION SERVICE IN MANY COMMUNITIES, PARTICULARLY SMALLER METROPOLITAN AREAS.

IF THE CURRENT SYSTEM IS NOT WORKING, IS UNFAIR OR IS INEFFICIENT, THEN LET US WORK TOGETHER TO FIX IT. LET US NOT JUST ALLOW THE FEDERAL GOVERNMENT TO WITHDRAW FROM THE FIELD UNDER THE GUISE OF BALANCING THE FEDERAL BUDGET. IF THE FEDERAL GOVERNMENT DECIDES MASS

TRANSPORTATION IS STRICTLY A STATE AND LOCAL RESPONSIBILITY, THEN RETURN TO US A PORTION OF THE FEDERAL TAX BASE WHICH HAS FUNDED THE PROGRAM. IT IS SIMPLY NOT FAIR FOR THE FEDERAL GOVERNMENT TO ABANDON MASS TRANSPORTATION AND EXPECT STATE AND LOCAL GOVERNMENT AND THE PRIVATE SECTOR TO MAKE UP THE DIFFERENCE.

HIGHWAYS AND BRIDGES

AS YOU KNOW, THE MAJOR PROBLEM IN THE HIGHWAY PROGRAM HAS BEEN CONGRESS' INABILITY TO PASS AN INTERSTATE COST ESTIMATE. WE CONGRATULATE YOU ON YOUR RECENT ACTIONS TO PASS NECESSARY LEGISLATION TO OVERCOME THIS PROBLEM, AND URGE YOU TO ADOPT A LONG-TERM SOLUTION TO THIS UNNECESSARY LOGJAM. BECAUSE OF THE WAY APPORTIONMENTS ARE MADE TO THE STATES THIS DELAY HAS AFFECTED LOCAL URBAN AND SECONDARY PROJECTS AS WELL AS BRIDGE AND SUBSTITUTE ICE PROJECTS. NACo HAS NO DESIRE TO TAKE SIDES IN THE DISPUTE BETWEEN THE HOUSE AND SENATE. WE DO WANT A SYSTEM WHICH GUARANTEES A SMOOTH FUNDING PROGRAM SO WE CAN EFFECTIVELY PLAN AND IMPLEMENT AN EFFICIENT HIGHWAY AND BRIDGE CONSTRUCTION AND REPAIR PROGRAM. ALL WE CAN DO IS URGE YOU TO FIND A SOLUTION TO THIS PROBLEM AND WE WILL URGE OUR MEMBERS NOT TO IMPEDE THE PROCESS WITH OUR OWN SPECIAL AND DEMONSTRATION PROJECTS.

LOOKING FURTHER AHEAD, WE URGE YOU TO CONSIDER OUR RESOLUTION ON HIGHWAY AND BRIDGE PROGRAM REFORM (ATTACHED). WITH THE SCHEDULED COMPLETION OF THE INTERSTATE SYSTEM IN THE EARLY 1990'S, WE SHOULD TURN OUR ATTENTION TO THE NEED TO REPLACE, REPAIR AND MAINTAIN THE OTHER SYSTEMS. DEFINING THE APPROPRIATE ROLES OF THE FEDERAL, STATE AND LOCAL GOVERNMENTS IN THE FUTURE HIGHWAY AND BRIDGE PROGRAMS IS A LEGITIMATE ISSUE. OUR STRONG BELIEF IS THAT WE SHOULD START THAT DISCUSSION NOW INVOLVING ALL LEVELS OF GOVERNMENT IN AN OPEN AND

RATIONAL PROCESS, ACKNOWLEDGING THAT SUCH A PROCESS, TO BE SUCCESSFUL, WILL REQUIRE MANY MONTHS OF SUBSTANTIVE DIALOGUE AND NEGOTIATION. WE MUST NOT LET THESE DECISIONS BECOME THE VICTIMS OF LAST-MINUTE BUDGET FEDERALISM.

SUMMARY

WE BELIEVE THAT IT IS IMPORTANT TO MAINTAIN AND PERFECT THE INTERGOVERNMENTAL PARTNERSHIP WHICH HAS CREATED ONE OF THE BEST SURFACE TRANSPORTATION SYSTEMS IN THE WORLD. IT IS IMPORTANT TO MAINTAIN A STRONG FEDERAL ROLE IN THIS PROCESS, AN APPROPRIATE BALANCE AMONG VARIOUS TRANSPORTATION MODES, TESTING OF NEW APPROACHES AND TECHNOLOGIES FOR TRANSPORTATION SERVICES, FAIR TREATMENT OF ALL REGIONS OF THE COUNTRY AND PROPER BALANCE BETWEEN NATIONAL OBJECTIVES AND LOCAL FLEXIBILITY.

THE NATIONAL ASSOCIATION OF COUNTIES (NACO) STANDS READY TO WORK WITH YOU IN REESTABLISHING A NATIONAL CONSENSUS ON THESE ISSUES AND PLAYING A RESPONSIBLE ROLE AS AN INTERGOVERNMENTAL PARTNER IN THAT PROCESS. WE ARE INCREASINGLY CONCERNED THAT THE COALITIONS AND CONSENSUS NECESSARY TO GO FORWARD IN MAINTAINING AND IMPROVING OUR VITAL TRANSPORTATION SYSTEMS ARE BREAKING APART. WHILE WE ARE FIGHTING AMONG OURSELVES ABOUT THE WAY PUBLIC TRANSPORTATION SERVICES ARE PROVIDED, WE PLACE AT RISK THE PROGRAMS AND SERVICES WHICH OUR PEOPLE HAVE COME TO EXPECT AND UPON WHICH THEY DEPEND.

MR. CHAIRMAN, THANK YOU FOR THE OPPORTUNITY TO TESTIFY ON THESE IMPORTANT ISSUES. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU OR THE OTHER MEMBERS OF THE COMMITTEE MAY HAVE.

NACo
STATEMENT ON THE FISCAL 1986 BUDGET

The nation's county governments support the reduction of the federal deficit. We recognize the critical need for a long-term deficit reduction program, and we stand ready to work with the Congress and the Administration to develop such a program.

Counties have actively participated in developing a solution to the nation's fiscal problems. Since the late 1970s, the National Assocation of Counties (NACo) has supported cuts in certain federal domestic assistance programs and has worked with the Administration to share the burden in federal attempts to balance the national budget.

In accepting our fair share of this burden, our efforts have been guided by the Association's policy statement on decentralization, which seeks to recognize and preserve the role of general purpose local governments as the principal public service delivery unit.

We reaffirm these principles and continue to support decentralization proposals that incorporate them.

Recognizing the need of each level of government to share the burden in decreasing the national deficit, NACo supports a freeze for the fiscal year 1986 federal budget as opposed to deep cuts in individual program areas.

However, NACo maintains its position that means tested assistance programs critical to the health and welfare of the poor, sick and elderly should not be subject to a freeze.

In addition, NACo supports 1986 funding levels that protect the capacity of state and local governments to meet mandates imposed by the federal government and federal and state courts. NACo supports adjusting mandates to accommodate available funding.

Finally, NACo maintains that budget reductions must be carefully considered within the context of federal tax policy changes. Changes in federal tax expenditures or efforts to raise revenue should not preempt the tax and financing capacity of local government.

We further believe that reforms in tax policy should enhance local government revenue capacity so that counties can assume the new responsibilities generated by federal and state government decentralization and by mandates initiated by the federal and state government and the courts.

January 14, 1985

NACo 1986 Budget Priorities

Top Priorities

1. General Revenue Sharing (GRS)

NACo supports continuation of full funding of the GRS program at $4.6 billion. This funding is essential to counties in providing education, public safety, health care, and other basic services.

2. Medicaid

NACo urges that the funding mechanism be retained, with no cuts in the federal match. That will preserve the entitlement nature of the program and allow for the provision of health care based on need. Cuts in Medicaid, the only public health insurance program for the poor, further shifts costs to all counties and jeopardizes the viability of public health care facilities.

3. Community Development Block Grant (CDBG)

NACo supports current funding of $3.5 billion. More than 100 counties receive entitlement grants and hundreds more are funded through the state program. Increasing participation, rising costs, and growing demands resulting from cuts in other social programs have already impeded efforts to rehabilitate blighted neighborhoods and housing for the poor.

4. Rural Programs

Poverty, poor living conditions and economic stagnation are most pervasive in rural areas where the local tax base and revenue raising capacity are severely limited. Farm failures and the inability to attract non-farm industry as a result of a lack of facilities to support such industry creates serious problems for rural community economic self-sufficiency. Consequently, NACo supports the retention of adequate funding of those farm and development programs that encourage economic growth and stability in rural areas, including the continuation of the Small Business Administration and FmHA programs.

5. Mass Transit

NACo supports federal assistance to mass transit at approximately $4.5 billion (as authorized in the Surface Transportation Assistance Act of 1982). Urban, suburban and rural counties depend on these funds for the provision of basic transportation services to the general public and special populations. Cuts would result in increased operating costs and fare increases.

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Other Priority Interests

Assisted Housing

As homelessness and overcrowding continue to increase, it is essential that the $9 billion current funding level for assisted housing be retained. Housing has already taken drastic cuts in previous budget years.

Employment Training Programs

NACo supports maintaining at least the current level of funding for jobs programs targeted to needy individuals. We therefore oppose terminating the $1.4 billion for Job Corps and funding reductions in the Dislocated Worker and National Employment and Training Programs. NACo further supports continuation of the AFDC Work Incentive (WIN) program, as the only federal support specifically for welfare recipients.

Environmental Mandates

Counties are faced with the devastating cost of hazardous waste clean-up, water pollution control, and other mandates imposed by the federal government or the courts. Funding to compensate these costs should be protected and adequate to meet the mandates.

Highways and Bridges

Although federal assistance to counties comprises a small percentage of county road and bridge budgets, it is important to maintain the existing urban and secondary road and on-and-off system bridge programs. These systems are vital to interstate commerce.

Law Enforcement

State and local governments receive a very small percentage of the current $3.5 billion Justice Department budget, yet handle 95 percent of the criminal justice workload. Most county funds are tied to fixed costs, leaving little or nothing to replicate programs of proven effectiveness. NACo strongly opposes any cuts to the Justice Assistance, Juvenile Justice, Runaway Youth, and Exploited and Missing Children programs.

Medicare

NACo supports efforts to control costs, in light of the worsening fiscal situation of Medicare's Hospital Trust Fund. However, proposed cuts would directly affect more than 1000 county public hospitals and skilled nursing facilities that are the major providers of care to the low income elderly. Reductions in payments to all providers for low income elderly shift costs to Medicaid and county budgets. Medicare cost containment proposals should take into account the special needs of public facilities serving a disproportionate share of low income elderly.

Payment-in-Lieu-of-Taxes (PILT) and National Forest Payments to Counties

NACo opposes any cuts in PILT funding, a program that minimally compensates counties for the loss of tax base from tax-exempt federal lands. Twenty-five percent of all national forest receipts go to counties for roads and schools. NACo supports continuing national forest payments under the current 25 percent program.

Welfare Administration and Penalties

Counties oppose a capped block grant for administering federal entitlement programs such as AFDC, Medicaid or food stamps since the costs of increasing caseloads would be shifted to state and local governments. More stringent error rate penalties also would shift costs of programs that are national responsibilities.

WIC

NACo supports full funding of the supplemental nutrition programs for women, infants, and children (WIC). More than 2000 county health departments administer WIC. Counties would have to supplement program cuts or drastically reduce services. In terms of health cost containment, WIC is an effective investment for reducing future outlays at all levels of government. By reducing low birth weights, infant mortality and mental retardation, each $1 spent on nutritional supplements and education (WIC) will result in a savings of $3 in future Medicaid costs.

RESOLUTION ON MASS TRANSIT AMENDMENTS

Whereas, public transit is an essential public service, necessary to meet the mobility needs of our nation's urban and rural citizens, the economically disadvantaged and the elderly and handicapped; and

Whereas, investment in public transit stimulates employment by supporting or creating 7,500 jobs for each $100 million of capital invested; and

Whereas, investment in public transit strengthens the economy by producing over $3 of private business revenue for each $1 invested; and

Whereas, the Surface Transportation Assistance Act of 1982 provides for an increasing federal commitment for public transportation; and

Whereas, the five year capital investment needs of the nation's public transit systems are $36 billion, or more than three times the level of authorized federal support; and

Whereas, the Section 9 formula grants program is the highest priority for meeting basic bus and rail capital and operating needs;

Now, therefore, be it resolved, that the National Association of Counties strongly urges:

1. Full funding of Section 9 to the authorized levels for both capital and operating assistance; and
2. Extension of federal transit program authorizations through 1987; and
3. Extension of the 3-for-2, capital for operating assistance trade-in provisions through the full authorization period of the transit program; and
4. Increased authorizations and appropriations for the Section 3 discretionary capital program at levels fully consistent with income generated in the Mass Transit Account of the Highway Trust Fund; and
5. Recognition that these essential Section 3 increases must not be a substitute for maximum funding of Section 9 in that the combined funding from the two sources falls far short of meeting proven transit industry capital needs; and
6. Continuing availability of all Section 3 discretionary funds from the Mass Transit Account to support rail modernization, new start system development and extra-ordinary bus capital needs; and
7. Distribution of Section 3 discretionary funds should be reviewed and decided annually by Congress based on professional assessments, extraordinary capital needs by the Department of Transportation and local program operators. The relative needs of rail modernization new starts, bus capital projects and other needs should be fully considered in that process.
8. NACo opposes any policy which diverts transit funds to any other programs.
9. Funding for the FY 1985 transit Interstate Transfer program at current levels to fund critical bus, rail modernization, and new start projects to avoid placing undue pressure on the Section 3 capital discretionary program; and
10. The tax status of employer subsidized transit fares should be equal to that of employer subsidized parking; and
11. The pooling of transit funds similar to the highway program which would allow more efficient and timely use of transit funds.

These goals are basic and fundamental and it is essential that they be communicated directly by Association members to the Congress as it deliberates transit legislation this session.

NACo SUPPORTS FULL FUNDING FOR FEDERAL MASS TRANSPORTATION ASSISTANCE

Whereas, the United States Congress passed, the Administration supported, and the President signed the Surface Transportation Assistance Act of 1982 (STAA); and

Whereas, the National Association of Counties (NACo) fully supported the passage of the STAA to be funded by the federal gasoline tax and general funds; and

Whereas, NACo continues to support funding for mass transportation at levels authorized in the STAA of 1982; and

Whereas, NACo believes that there remains a strong national interest in mass transportation to promote energy conservation, a cleaner environment, economic growth and development, more efficient transportation services and reasonable access to public transportation services for all citizens; and

Whereas, the Administration has proposed to reduce federal assistance for mass transportation from $4.1 billion in 1985 to $1.377 billion in 1986, eliminate operating assistance, increase the local share and make other major program changes;

Whereas, NACo supported the 5 cent increase of the federal gas tax, because of the one cent for mass transit included in the Surface Transportation Assistance Act of 1982, in addition to the $3+ billion general fund allocation in the UMTA budget, NACo continues to support this agreement and calls upon the federal government to continue its commitment to fund mass transportation needs at levels authorized by the Surface Transportation Assistance Act of 1982.

Now, therefore be it resolved, that the National Association of Counties continues to support federal assistance to mass transportation at levels authorized in the STAA of 1982 unless the United States Congress includes assistance to mass transportation as part of an overall budget freeze which includes all federal spending on defense, social security, and entitlement programs except for means tested entitlements as stated in NACo's overall position on the federal budget; and

Be it further resolved that federal assistance to mass transportation should not be singled out for extra budget cuts relative to other federal responsibilities and programs, and

Be it finally resolved that NACo calls for full consideration of its views in a partnership approach to changes in the STAA of 1982 as we approach the end of the current authorization period.

Resolution: Highway and Bridge Program Reform

Whereas, the United States Congress is considering amendments to the Surface Transportation Assistance Act of 1982 affecting highway and bridge programs;

Whereas, county governments traditionally have played an important role in the construction and repair of our nation's highway, road, bridge and safety systems;

Whereas, county highway, road, bridge and safety needs have often been shortchanged in the distribution of federal-aid funding and these systems are vital links in our nation's overall transportation system;

Therefore, be it resolved, that the National Association of Counties (NACo) endorses the following provisions as amendments to the Surface Transportation Assistance Act and related legislation:

1. The elimination of the spending ceiling on the use of urban, secondary road and on and off system bridge programs.
2. The creation of a separate transportation trust fund pass through at least equal to the current apportionments for the urban and secondary road programs, full funding for the off system bridge program and various safety programs. This program should be administered through the states based on mandatory pass throughs to local governments and preservation or development of cooperative decision-making between the states and local governments.
3. The expeditious completion of the Transportation Research Board study on the federal design, construction and repair standards applicable to local road bridge and safety systems in order to make these standards, requirements and eligibility criteria more sensitive to the real needs of these systems and more cost-effective.
4. Full consultation and involvement in decision-making of county elected and appointed officials by the states in the development of integrated state transportation planning, operations and funding.
5. Equitable distribution of forest highway funds to states and counties with full consideration of past forest highway funding levels and percentage shares.
6. Continuation of the one hundred percent federal reimbursement policies to states and local governments for assistance under the federal highway emergency relief program.
7. Initiation of a national study of the special transportation needs of urban, suburban and rural counties including an assessment of the current federal funding received by counties.
8. Expansion nationwide of the successful demonstration program allowing states to count assistance provided to off-system bridges toward their federal match requirements.

Highway and Bridge Programs

Whereas, The United States Congress has failed in its responsibility to release necessary funds for national, state and local highway and bridge needs as authorized in the Surface Transportation Assistance Act of 1982; and

Whereas, The Interstate Cost Estimate process as now required by Congress for its own deliberations has proven to be too cumbersome and contentious; and

Whereas, most state and local highway and bridge needs which require federal assistance are going unmet as a result of Congress failure to act; and

Whereas, the tremendous expansion of special demonstration projects being considered by Congress, some of which include county-backed projects, is excessive and counterproductive to the overall transportation needs of the federal, state and local governments;

Now, therefore be it resolved, that the National Association of Counties urges Congress to expeditiously pass an ICE and substitute ICE for at least 18 months including last years 6 month ICE and ISCE; and reform its own processes for consideration of future highway and bridge needs by:

1. Making the ICE and ISCE processes automatic as offered by the Administration unless Congress acts by a date certain to amend.
2. Limiting the dollar value of special demonstration projects to a small percentage of the total funding and establishing standards for such projects that would insure funding of only bona fide innovations and extraordinary needs.
3. Setting the state or local match at no lower a percentage than required of regular projects in that particular category.

Be it further resolved that the National Association of Counties urges county officials to keep their special and demonstration projects applications to a minimum, to endorse the spirit of the previous resolved provision with their state and federal policymakers, and to advocate intergovernmental partnership approaches beneficial to the overall highway and bridge needs at the national, state and county level.

AMTRAK RESOLUTION

Whereas, all modes of transportation serve a vital national function;

Whereas, the major modes of transportation are all highly subsidized;

Whereas, no major transportation is financially self-supporting;

Whereas, loss of rail transportation would have a negative impact on national security:

Whereas, Amtrak is the primary mode of public transportation for many local communities which do not have access to airport or bus service;

Whereas, many counties throughout the country will suffer an economic loss if federal support for Amtrak is eliminated;

Whereas, there is a reciprocal relationship between passenger and rail freight operations that is essential to the maintenance of freight services in many counties;

Whereas, it is estimated that the necessary subsidies to other rail lines and transit authorities would increase by $212 million;

Whereas, in some areas county governments would have to increase their direct subsidies to assure the continuation of their own passenger rail service;

Whereas, Amtrak has met or exceeded all of the Congressional requirements for increased efficiency and improved service;

Whereas, the United States is behind all other developed countries in its support for railroad service;

Now, therefore be it resolved, that the National Association of Counties (NACo) supports the continuation of federal rail subsidies to Amtrak at the present levels consistent with NACo's overall policy endorsing an overall federal budget freeze.

BIOGRAPHICAL INFORMATION: CARL S. YOUNG

Broome County Executive, County Office Building, Government Plaza, Binghamton, NY.

Home address: 2 Spurr Avenue, Binghamton, NY.

Born: September 29, 1942, Syracuse, NY.

Education: Middlebury College, 1964, B.A. (Political Science); Maxwell School of Citizenship and Public Affairs, Syracuse University, 1965, M.A. (Political Science).

Professional: Teacher, City School District, Binghamton, N.Y. (History and Government). An "Outstanding Secondary Educator in America," 1974. "Teacher of the Year," Binghamton Central High School, 1980.

Community

Board of Directors, Broome County Urban League.
Board of Directors, Roberson Center for the Arts and Sciences.
Board of Directors, Action for Older Persons.
Board of Directors, NY-Penn Health Systems Agency (Executive Committee).
Member, Broome Advisory Council on Human Rights.
Member, United Way Special Study Committee.
Board of Directors, Opportunities for Broome.

Government

Broome County Legislator (5th District) 1973-80 (4 terms):

Majority Leader 1977-80.

Committee Assignments: Finance; Aging, Veterans and Youth; Transportation; Public Health; Community Affairs, and Mental Health; Special Committee on Reassessment. Chairman.

Broome County Executive 1981 to Present

Member, New York State Association of Counties Medicaid Task Force.

Member, Broome County Industrial Development Agency.

Vice Chairman, Binghamton Metropolitan Transportation Study Committee.

National Association of Counties:

Transportation Steering Committee, 1981 to Present: Vice Chairman, 1982-83; chairman, 1983-85.

Testimony before U.S. Senate re: "Infrastructure," April 1983.

Speaker—New York Conference on the Infrastructure Sponsored by the New York Academy of Sciences, New York State Legislative Commission on Science and Technology, Polytechnic Institute of New York Department of Civil and Environmental Engineering "Preserving the Infrastructure by Local Government".

Mr. ANDERSON. At this time, we are going to hear from a panel from the American Public Transit Association and following their presentation, we will break for lunch.

We have Warren Frank, board member for Syracuse, NY, and Bernard Ford from Chicago; Jerome Premo from Newark, NJ; Barbara Gannon from Towanda, PA, accompanied by Jack Gilstrap, executive vice president, APTA.

We do have your prepared statement here. It will be placed in the record in its entirety.

Mr. Frank, I guess you are in charge.

TESTIMONY OF A PANEL OF THE AMERICAN PUBLIC TRANSIT ASSOCIATION CONSISTING OF WARREN H. FRANK, CENTRAL NEW YORK REGIONAL TRANSPORTATION AUTHORITY, SYRACUSE, NY; BERNARD J. FORD, CHICAGO TRANSIT AUTHORITY, CHICAGO, IL; JEROME C. PREMO, NEW JERSEY TRANSIT CORPORATION, NEWARK, NJ; BARBARA GANNON, ENDLESS MOUNTAINS TRANSIT, TOWANDA, PA; ACCOMPANIED BY JACK R. GILSTRAP, EXECUTIVE VICE PRESIDENT, APTA

Mr. FRANK. Thank you, Mr. Chairman.

Good afternoon. We will try to be as brief as we can, however, we have a message that we certainly would like to put forward this morning.

My name is Warren Frank, and I am the executive director and a board member of the Central New York Regional Transportation Authority, which is a mid-size transit system.

We provide mass transportation services to the rural poor and to the urban transit dependent in the Central New York region. We carry the elderly and handicapped to doctors' offices, to nutrition centers, and to work. We have tried to do everything right.

Last year we were recognized by APTA as the best mid-sized transit system in North America. We have also won the top award in North America for transit management of systems of any size. We have twice been cited by the President of the United States for our promotion of mass transportation in concert with private enterprise.

Our transit professionalism has been recognized by three successive Governors of New York State and of both political parties, and we have worked with a 10-person board which during much of its life has been composed of five Democrats and five Republicans.

Mass transportation in Syracuse, NY, is not a political issue but rather an issue of human and community need. Today I am here as chairman of the American Public Transit Association, the International Association of Transit Operators and Suppliers. Our member transit systems carry more than 95 percent of U.S. riders. I have brought with me other representatives of mass transportation systems whose efforts have revitalized their communities both large and small.

We all appear here puzzled. We perceive an attempt to undermine our efforts and the community growth which mass transportation has generated. We've seen administration budget requests which will devastate Federal transit and Federal transit operating support. It will devastate our systems and those we serve.

We only have a brief time today, Mr. Chairman. We wish to be responsive to you and to your subcommittee's interest in the administration's proposed fiscal year 1986 budget request for the Urban Mass Transportation Administration.

We welcome this opportunity to speak because we hate to see all the community growth and environmental balance achieved to date through mass transportation eroded by the administration's budget request.

This subcommittee, its parent committee, and many others have, over several years, worked painstakingly to assure viable public transit. We urge you and the total Congress to reject the administration's budget request swiftly and totally.

Let me introduce my colleagues. With me today is Bernard Ford, president of APTA, and executive director of the Chicago, IL, Transit Authority. We also have Jerome C. Premo, chairman of the APTA Legislative Committee, and executive director of the New Jersey Transit Corp.; Barbara Gannon, general manager of the Endless Mountains Transportation Authority of Towanda, PA, representing section 18 and section 16(b)(2) operators; and, of course, Jack Gilstrap, the executive vice president of APTA.

I would like to ask Mr. Ford to speak at this time.

Mr. FORD. Thank you, Warren.

Good afternoon, Mr. Chairman, members of the subcommittee. It is a pleasure to be before you again today, but I wish the occasion were a happier one for public transit.

In my first appearance before you as president of our association, I wish I could offer ringing support for our President's budget. But I must echo the comments of our chairman and ask your help in overturning this misguided effort to, in effect, kill the Federal Transit Aid Program.

Our testimony is before you, as you noted, Mr. Chairman, and I would like to take the opportunity to summarize a few of the key points, as I believe my other colleagues will do.

In the past, we have seen the administration's budget approach the transit include phased reductions. This year we see, in a single sweeping gesture, the elimination of Federal involvement in mass transit. That seems to fly in the face of congressional intent that was expressed in the Surface Transportation Assistance Act of 1982 in which this subcommittee and the full committee played a large role.

We share with you the common objective of reducing the deficit, but we think that we must find a fairer and less disruptive way for all of us to share that burden.

If the administration's proposal were to pass, the greatest impact would fall on the most vulnerable members of our society; low-income riders, the elderly, the transportation disadvantaged. If the budget were approved on October 1 of this year transit service across this country would commence an immediate, unavoidable, and massive decline.

We feel an across-the-board freeze in domestic programs, including Federal support for transit, is a much more equitable approach. It would be less disruptive and less devisive. It would fall fairly, we think, on all elements of our society.

As we consider the budget, let's not lose sight of the fact that Federal assistance, both operating and capital, will not, at today's levels, solve all the problems that mass transit systems face. There is an increasing role for States and localities, but the one you gentlemen have heard this morning will be hard for those governments to bear. We understand that everybody is going to have to tighten the belt and do a little more. There is not an inexhaustible supply and a bottomless pit of money.

Our assessment does show that we need about $36 billion between now and 1988—far more than even the current level of funding will provide. Those are real needs that we don't believe the administration disputes. Some of their own studies support that figure as being reasonable and realistic.

We have heard a great deal of commentary in recent years with respect to a particular segment of the program, operating expenses. The call to cut operating expenses seems to be triggered by several kinds of considerations, and we hear most often that it is triggered because the administration feels that those operating expenses are not used effectively. It is charged that they are used, indeed, in many cases, to pass on large salary increases to undeserving workers.

I would simply say to you that Federal assistance makes up nationally about 8.6 percent of the total cost of operations. In my system, it is a much smaller amount than that.

It is ludicrous to think that Federal officials putting up 8 percent should be more concerned than local officials who put up 92 percent or 94 percent in my system. For every dollar that we were to "give away at the bargaining table," our local taxpayers and our riders, would bear more than nine-tenths of the burden. I don't think it is an argument that really holds water, and yet it is an argument that continues to be made.

Small transit systems which depend on Federal operating assistance to meet 30 or 40 percent of their costs are in the greatest immediate jeopardy from a total Federal withdrawal. These small areas are frequently without a tax base, as you heard again this morning, to replace the lost Federal funds.

A further comment on operating funds. They are a major source for all systems to support maintenance. We think if Federal capital investments are to be maintained, then the Federal interest ought to extend to maintaining that investment so that rolling stock and other things that the Federal Government invests in are properly maintained.

We thought, Mr. Chairman, that in 1982, with the passage of the STAA that we in transit could begin to do rational, long-term planning, because we could see that we had a base of support that would last. And yet in 3 years, 2 years really, we are faced with a proposal to slash 67 percent of that funding. We have already been faced with transference of the one-penny gas tax. Some of that money already has been eroded, taken out of general revenue and substituted. All of it would be, if the administration has its way. It would wipe out operating assistance to 1,300 urban, small urban, and rural areas. It would cut our capital assistance to urban areas more than $400 million. This program that the President is proposing would make no future provision for section 16(b)(2) programs for senior citizens and the disabled. It would slash capital aid in section 18 by 55 percent, and it would place in doubt the future of all new starts across this country.

Just one more point. Let's put the budget in context. Federal transit programs represent one-tenth of 1 percent of the total U.S. budget. The transit program is targeted for more than 5 percent of the total reductions in the budget that are proposed by the President, 50 times larger than our share of the budget.

Again, we don't believe that's equity. We urge you and urge this House and the Senate to approach it on the basis of the freeze.

It seemed ironic to us to hear that the administration feels that the Federal Government has no interest in transit, and yet, as you have heard three times this morning, the administration's own Justice Department went to the Supreme Court to insist that the Federal Fair Labor Standards Act applies to transit. The Supreme Court agreed. My system will spend somewhere between $2 million and $3 million per year more as a result of the application of that standard. All systems across the land will spend a great deal more. It is more than a bit ironic.

We have been good stewards of Federal assistance. Our productivity is climbing with the aid of Federal funds. Between 1976 and 1984, the percentage wage increase for bus operators has been equal to or less than the wage increases of other workers under major labor contracts in every single year. So, unlike some of the things we hear, we think we have done a good job with Federal dollars.

In his nationwide radio address last Saturday, the President himself asked why taxpayers in one region should support the transit needs of the citizens in another region. They do so, Mr. Chairman, to achieve national social and economic goals just as we do in other programs. Water programs, highway programs, and other programs are part of this great republic and citizens of each part of this country support citizens of other parts of the country. It should be no different in transit.

With that, Mr. Chairman, I would like to close and pass on to one of my colleagues.

Mr. **Frank**. Thank you, Bernie.

Now, Mr. Chairman, we would like to have Jerry Premo, who is the chairman of our legislative committee, make some comments.

Mr. PREMO. Good afternoon, Mr. Chairman, and members. Thank you for affording me the opportunity to join with my colleagues in commenting on the impact of proposed cuts in Federal legislation and, yes, to seek your continued support for a strong public transit program nationally.

Let me try to focus on who our riders are and how they and the businesses that support public transportation in the private sector will be impacted by these proposed cuts.

First, who are our riders? Well, of course, they vary from place to place throughout the country, but they are a broad spectrum of America and Americans. They are not, as some in the administration have suggested, particular special interest groups. They are, in many instances, individuals who are prime beneficiaries of the safety net, which the President has cited as important. They find, through public transit, the opportunity to seek, secure, and retain employment; find, seek, and secure educational opportunities or health treatment or other aspects that they so vitally need.

We took a look around the country at who was riding on our buses and trains. Some 60 percent of our riders nationally have incomes of less than $20,000 a year. A third are under $10,000 per year. A little over 15 percent of our riders are senior citizens; 40 percent are minorities; and some 50 percent are females.

The majority of our trips, as I noted, are made to work or from work so that our riders can enjoy self-sufficiency.

What is going to happen to these people if transit cuts are implemented? The results are clear. The impact will be devastating, immediate, and broad-based.

First, in the operating area, massive cuts in service appear inevitable. In some instances, particularly in medium- and smaller-sized communities, systems face complete collapse. Where service can be maintained, fares are likely to jump to new and unheard-of high levels, and in the process, many of the riders we have gained during the last decade will depart from public transportation and go on to highways.

I might note that in our major urban areas, there is a clear link between the quality of public transportation, the impact on our roads and the need for investments in highways. Obviously, major road investments are going to be needed in many places, as other speakers this morning have identified, if public transit is severely curtailed throughout the country.

The cuts are proposed not only in operating aid but in capital aid. Seventy percent of the systems throughout this country that have responded indicated they won't be able to buy new buses.

The fact of the matter is that 30 percent of the buses in service in this country today are over 12 years old and should be replaced anyway. Yet, many systems confronted with these cuts simply won't be able to replace those overaged buses.

The impact won't just be on our riders, but it will be on the bus industry in this country. The bus manufacturing industry is already in shaky condition. Because of the uncertainty in the Federal program during these past 3 years, bus purchases have dropped materially from nearly 4,500 a year in 1981 to less than 2,000 last year. When buses aren't being made, people aren't working to build those buses. It means our average fleet age is getting older and that means poorer service, because of the overage of these buses.

The impact of these cuts will clearly show up on our streets. They will be more crowded. For many who are low-income who won't be able to get to jobs, it will hurt our economy. We estimate that a loss in jobs as a result of these cuts, will total nearly 200,000 in the public and private sectors. In the private sectors, some $8 billion in total business revenue will be lost. In particular, private business will suffer.

We talked to our associate members who make buses and trains and signals, seats and the like. The impact will be severe and disastrous on their businesses. Office and plant closings of some 13 percent are anticipated, and about 45 percent, particularly smaller businesses will withdraw from the public transportation field. Many of those are minority and female businesses which came into being in response to the urgings and promises contained within the Surface Transportation Assistance Act that you sponsored and championed. These are businesses which organized, assuming that we would have a genuine 4-year commitment to public transit, as evidenced in that legislation.

We don't believe that public transit is a wasteful subsidy but rather a prudent investment in a stronger America. We think that a social defense and mobility in this country are as important as a strong world-wide defense.

It has been argued that State and local governments will pick up the tab, that have surpluses. The fact of the matter is that surpluses are limited in some States and they represent less than 3½ percent of the budgets of these State and local governments.

We asked our members what might happen with the cut-backs in aid. Seventy-five percent said, "No, State and local governments weren't in a position to back-fill cuts in operating aid." And nearly 85 percent said, No, with respect to capital.

It really isn't just an either/or with respect to capital and operating aid. We cannot make the mistake in public transit of abandoning capital investments on a continuing basis at the expense of operating or vice versa. We can't repeat some mistakes of the past that would have us running a deteriorated infrastructure that may itself be not safe.

Let me close. Your continued support is both important and needed, because, as I said a moment ago, you have been champions of the cause of public transportation.

Sure, we in the public transit business who are employed in operating systems have an interest, but more importantly our riders in big and small places around the country who depend on transit to get to jobs in urban areas and in rural areas, need positive action soon so that we can avoid the chaos that will characterize our budget seasons as we go into new fiscal years. We need it in order to make orders for physical equipment which any sound business needs.

We will look forward to working with you in reshaping an authorizing bill that will help continue the partnership that has existed among Federal, State, and local people.

Thank you very much for both your patience and interest in what I have had to say.

Mr. **Frank**. Thank you, Jerry, thank you very much.

Small urban, rural, and social service providers will also bear the brunt of the administration's budget request. We are proud to have with us today a representative of those operators, Barbara Gannon, who in addition to operating these important services is vice president of rural systems of PAMTA, the Pennsylvania Association of Municipal Transportation Authority.

Barbara?

Ms. **Gannon**. Thank you.

Good morning, Mr. Moody, and members of the committee.

I appreciate the opportunity to have you hear a rural perspective on the administration's proposed transit budget.

Traditionally, mass transit's been viewed as an urban issue. However, with Federal initiatives like the 147 demonstration project in 1973, and the section 18 funds in 1978, this concept has begun to change.

These programs have provided for a coordinated transportation effort in rural areas and have made significant coantribution to the elimination of isolation in providing access to vital services for rural areas.

Today there are 974 operators receiving section 18 funds. Yet today, section 18 funds are in danger of being cut substantially. Furthermore, capital assistance to rural areas is slated for a 55-percent cut, and the Section 16(b)(2) Program which currently provides capital assistance to 3,000 nonprofits serving elderly and handicapped is threatened with elimination.

The elimination of Federal section 18 funds would greatly impact on Pennsylvania's 19 recipients, as Federal funds constitute 50 percent of the subsidy that is received. Systemwide in Pennsylvania, fare box revenues would have to increase 65 percent, past the possible affordability of most rural passengers.

The burden on local and State governments would require increased participation at a time when the budget crisis already exists and at a time when Federal funds, which ordinarily provide flexibility to local governments, are likewise being eliminated.

Public-private partnerships would also be damaged. Of the 19 recipients in Pennsylvania, 14 subcontract service to private operators. Seven of the 19 Pennsylvania systems which serve sparsely populated areas would be forced to terminate their section 18 service. Capital assistance would be of little use without operating assistance.

In answer to the administration's argument that transit is a State and local responsibility, I contend that the future of rural transit depends on a cooperative effort by Federal, State, and local officials.

Pennsylvania's budget for transit has doubled since 1978, and local governments, likewise, have met the increased demand. With revenues from fares increasing 40 percent since the inception of the program, Pennsylvania rural operators are making progress in minimizing the need for Federal assistance.

Rural transportation is in its formative years, and to have Federal money withdrawn before the systems reach maturity would be a travesty.

I have spoken on the impact on State and local budgets, but it is important to put these facts and figures on a human scale. I am a provider of transportation services in a rural area where the average systemwise trip length is 40 miles. Public transportation is not a convenience; public transportation is a necessity. The elimination of section 18 funds would likewise eliminate my six-group service and would disenfranchize those persons now depending on transportation to access the services vital to maintain their lives.

For instance, the cuts would force the Job Training Partnership Act enrollee who lives 20 miles from his training to return to his dependency on State assistance. The sheltered workshop client who utilizes section 18 service would forego needed training. The man living on a fixed income could not receive services from the regional medical center 20 miles from his home. The one-car family whose husband depends on section 18 service to get to the local Sylvania plant would likewise be affected.

There are other forms of transportation services in my rural area. I contract the taxi companies, supply demand-response service and also utilize volunteers.

Rural transportation providers have to be creative and access all the options available to them. However, these options, these alternative modes of services are not affordable to the general public without subsidies from block grants and subsidies of agencies.

The section 18 fixed-route service in my area is the only affordable means of transportation to the general public. On behalf of the residents in rural America who depend on transportation services to meet their basic needs, I urge the preservation of the section 18 funding at its current level and of the Section 16(b)(2) Program, and urge you to reject the administration's proposal to dismantle Federal transportation programs.

Thank you very much.

Mr. **Frank**. Thank you, Barbara.

Mr. Chairman, my colleagues and I will be pleased to answer any questions you or members of the subcommittee have.

Mr. **Anderson**. Well, thank you, Mr. Frank, and members of your panel for your presentation.

A year or so ago, APTA adopted the slogan, "Transit Means Business." Have you tried to calculate the negative impact that a reduction in transit assistance would have on the amount of taxes paid by American business?

Mr. **Premo**. We would like to try to identify that for you as a followup to the hearing this afternoon, Mr. Chairman. What we have done is try to calculate the impact of cuts both in the capital area and operating area for each $100 million of program that's cut.

[The following was received from Mr. Premo:]

Public transportation has a profound impact on local and national economies. Transit attracts new development and new businesses, increases property values and tax revenues, boosts downtown retail sales, generates jobs and provides mobility for workers and shoppers.

Both capital and operating assistance spending are a source of livelihood for thousands of American firms. Purchase of their goods and services together with the expenditures of some 200,000 transit employees result in $45.5 billion per year in business revenue throughout the economy.

The Administration's proposal to reduce federal assistance to mass transit by $2.4 billion in Fiscal Year 1986 will have a significant impact on business and the U.S. economy generally. The American Public Transit Associations projects: Loss of support for 200,000 jobs nationwide; 46 percent of transit suppliers will close offices or plants; 87 percent of transit suppliers project layoffs; 45 percent of suppliers anticipated withdrawal from the transit market; and loss of $8 billion in private business revenue.

The amount of taxes paid by American businesses is proportional to the health of the business community. While it is difficult to quantify the effects on income, property and sales taxes, the loss of business dues to reduction in federal assistance to transit will clearly weaken the tax base of this country.

A loss of $8 billion in business revenue due to the proposed transit budget cuts would likely result in a loss in federal and state tax revenue of approximately $800 million.

Mr. **Premo**. The net effect of the administration's budget is a huge whack, a $2 billion impact on business, and we will have to, in turn, try to estimate what loss to the Federal Treasury such an impact on business would have.

It is going to be severe. I might note that something we tried in New Jersey that is a follow-on to the "Transit Means Business" slogan. We have worked with 2,800 small and medium-sized businesses and hundreds of grocery outlets. Somebody who buys a monthly pass in our State for rail or bus can, in turn, go back to their hometown with that pass and get a reduction in the cost of a bag of groceries: $1 off a $10 bag of groceries, 50 cents off a hamburger or some money off flowers. It has had an incredible effect on the private sector, because they have seen the money that is made by commuters who go to work and come back to Main Street. They have seen the impact of investing in public transit in their own economic well being, and that is being repeated all over the country.

We need to be able to do a better job in quantifying it, and we would like to follow up with you on that.

Mr. **Frank**. Mr. Chairman, could I comment very quickly on the slogan? I tell you very proudly "Transit Means Business," came out of Syracuse. We started many years ago. We called it originally, Transit Tuesday but it was a free ride. If people came downtown and did some shopping in the central business district, they were then given a free ride home on the bus.

That went on for many years, and it was tremendously successful. Actually, it helped build our system, but it helped to rebuild our central business district as well.

We have tied in with McDonald's—the fast-food chain—for over 7 years now. Instead of reducing our token cost by discounting them, by putting 11 tokens in for the price of 5, we get over $250,000 a year.

We are also with the Irving Trust Co. which in Syracuse is the Merchant's Bank. They buy out our entire transit system the day after Thanksgiving, which is their largest shopping day of the year, and everyone in our community has free rides. We double our ridership on that particular day. Transit does mean business. For St. Patrick's Day, we have a furniture store, Duncan O'Brie, which has bought out our system once again. On St. Patrick's Day, Sunday, this year it will be on Saturday—we will be bringing anyone in the community downtown for Saturday shopping, and they will be participating in the parade. My point is, that in our community, and I know nationally, because many of these programs have been picked up nationally, have been very effective in meaning business.

Mr. Anderson. If they, and this is kind of a devil's advocate question, if the Federal Government underwrites such a small amount of a transit system's operating assistance, I think you quote less than 10 percent nationally, why can't they drop out of the program altogether, if it's only 10 percent?

Mr. Ford. Mr. Chairman, perhaps I can try to answer that. I am sure some of my colleagues would want to also address this. While operating assistance is 10 percent nationally, it represents 30 to 40 percent, particularly in the small communities—communities that are hard pressed to raise any additional funds either through their fare box or through their tax base. It is a small percentage in my system, but it is a big dollar number, $50 million. Fifty million dollars for our system would mean roughly a, 20- to 25-cent increase in a fare that is already at a 90-cent base and 10-cent transfer, or it would mean very, very substantial service cuts. So, while it is a small percentage, it represents, again, a partnership that has grown and existed over the years, and a partnership upon which State and local people have planned and have built their own taxing structure.

Mr. Anderson. I'd like to have you elaborate on this 10-percent figure a little more. I think it's the first time that I've actually heard it. How does it break down, for example, between large cities and smaller communities? Are rural areas more dependent upon Federal operating assistance than larger cities? I drew that from your last comment.

Mr. Ford. The answer is yes.

Mr. Anderson. Would somebody want to develop that a little bit.

You know, at one time, I know that I had the impression that operating assistance was a help to big cities. As I held hearings around the country, I found that it was life blood to most of them, and I wondered are they not only more dependent, but how much are they? How really important is it to rural America to have operating assistance?

Mr. Frank. Rural America cannot function without it. There will be disaster in the rural and the suburban areas if this were to take place.

In our community, we were getting 25 percent of our total operating aid from the Federal Government. You take that 25 percent—it's down to about 17 or 18 percent now. You take that away from us, and it is going to have a tremendous impact, not only on our fares, but on our senior citizens. We happen to have a very extensive demand-response system for senior citizens and the handicapped. There would almost be a demise of that type of surface transportation, in our case. We would certainly have to take a good hard look at our regular route system.

Ms. Gannon. I think I spoke to the need of operating assistance, federally, in helping to make the ride affordable. We do use lots of different modes of transportation, but those modes in a rural area are so expensive that the general public cannot afford them.

If someone is an agency client and they are funded by an agency, then, the agency pays the cost of the ride. But what about those people who do not have any kind of a sponsorship? We need the

Federal operating assistance to make it affordable for general public to utilize transportation services.

Mr. **Anderson**. Jerry?

Mr. **Premo**. Mr. Chairman, to put in some context the aid in areas above a million that have both rail and bus systems, just about all of them have about 10 percent or less of their total operating costs supported by the Federal Government. Those which operate bus service range up to 15 percent in the areas above one million.

On the other end of the spectrum, communities of under, say, 200,000 in population as an average have about 25 percent of their total costs covered through Federal assistance, but in rural areas, that amount goes up to 40, to 50 percent.

The Federal law now requires that there be no more than 50 percent, essentially, from the Federal Government. That mark is by no means approached by any medium or larger system. That is why we can say with genuine confidence that the people who are going to be clobbered by this elimination are people in medium and smaller sized cities, many of have no other way of getting around.

Mr. **Anderson**. Are you getting this message to the Congressmen and Senators representing these kinds of areas? I know the general feeling is that when you think of operating assistance, you think of a big city like New York, and they would go on. I am confident if we didn't provide an operating expense, they would exist, but if these other ones close up, I think that message ought to get to some of the rural parts of America.

Ms. **Gannon**. I agree with you, and I think I pointed out in my testimony that of the 19 systems in Pennsylvania, 7 of those systems would no longer be able to provide section 16(2) transportation services. That is quite significant in one State with the number of rural systems—you know, the high population in Pennsylvania.

Mr. **Anderson**. Well, you know the UMTA Administrator recently labeled the New Start Program as the Ponzi Scheme. Obviously, I don't share that viewpoint and I suspect that upon further reflection, he rather regrets having made so colorful a statement. But, his point is that if the Federal Government agreed to fund the construction of all projects that were earmarked last year, there would be an unfunded liability of $4 to $6 billion. How do you address that?

Mr. **Ford**. Mr. Anderson, we believe, and we have said to the UMTA Administrator, that any right-thinking operation will establish some reasonable and rational criteria for selecting any project, be it a new start transit system, a highway somewhere or a dam or anything else. They have to be judged on merit. We don't question that. We don't argue with that. We believe that there will be methodologies worked out to select them, but to simply say on the front end that there isn't one city in the entire United States which merits a new start seems to us to be just something that is insupportable. Clearly, there are. And I think what needs to be done is for the Urban Mass Transportation Administration, in concert with the industry and with this Congress, to work out reasonable and rational criteria for selecting how they will fund new starts in cities that come in and ask for the ability to build something that they feel they need.

To just take a cavalier attitude and say they are not needed is something we as an industry would certainly reject.

Mr. ANDERSON. H.R. 5504, the outstanding bill which this committee authored and passed the House by a 4-to-1 margin last year, only to die when it was ignored by the Senate and opposed by the administration, would have established a process for evaluating the various new start projects and put some order into the program. Now, is this concept a good one, and if so, what criteria should be used?

Mr. FORD. Certainly, the concept is an excellent one, Mr. Chairman. Regarding the precise criteria, I believe we have some diverse opinion even within our own industry. We met, oh, approximately 6 or 8 months ago and sat down to begin that process. We have asked UMTA to participate with us. We would be eager to participate with this subcommittee and its staff and anyone else in working that out.

I think we, depending on how we come at the problem, may have different views on it, but I am sure we can arrive at a consensus criteria that are good ones and will meet the national purpose and the purpose of this Congress.

Mr. ANDERSON. I have more questions, but I am going to yield to my colleagues here.

Mr. Shuster?

Mr. SHUSTER. Thank you very much, Mr. Chairman, and I doubt if I will get through all my questions in the time allotted, too.

First of all, as a matter of information, I have been informed by staff that the section 16(b)(2), Program capital funding for the elderly and handicapped, is not eliminated in the present budget. I think I heard two of you testify that it is eliminated. I think we ought to clear that up.

Mr. FORD. We understand, Mr. Shuster, that the budget, as presented, did eliminate it. The administration has given some indications through UMTA that they might reconsider that proposal, but that, as it presently stands, if the budget were adopted, it would be eliminated.

Mr. SHUSTER. Well, we have testimony up here from Mr. Stanley, written testimony, which refers to it being included. Nevertheless, I am glad you mentioned it, and I think it is a point that we need to clarify as we move along.

Mr. FORD. We think it would take additional legislation of some kind, because if the budget were passed, it would disappear.

Mr. SHUSTER. OK, thank you.

Your testimony mentions a freeze of domestic programs as a legitimate and productive approach to the deficit problem. Would you be prepared to support some level of a cut if it were a cut that were applied just as a freeze is applied—across the board?

Mr. FORD. I think we probably all have a comment on that one, but perhaps I could start.

Mr. SHUSTER. And what level of cut?

Mr. FORD. Well, I think what we are saying, Mr. Shuster, is that any cut, indeed even a freeze, because of the inflationary situation, is going to hurt someone. But like the people from NACo and

League of City and Conference of Mayors, we know that the deficit is a major problem. It is a problem that has to be solved, and it isn't going to go away by ignoring it.

We are looking, I guess, for equity. To sit here and say to you, "Yes, we could support 10 percent or 5 percent or 2 percent," isn't realistic. We know that the Congress will do its duty and it will do it well. We are looking for equity in the treatment. If that means a freeze and something else is going to do it, that is what we believe ought to be done.

Mr. SHUSTER. I think you have answered the question when you said you are talking about equity. That does answer it.

Let me move along here, and there is a purpose. I do want to say that I do not agree with the administration's proposal as to eliminate operating subsidies. I do not agree with the legislation that they are sending up here to us. I think it does go too far. I hope we are going to be able to work out compromises, because mass transit does, indeed, play a vital role in our society, both in urban areas as well as rural areas.

You furnished this committee with the results of a survey of 150 cities on the impact of the administration's proposed budget. We would appreciate it if you would furnish us the complete survey with a list of the respondants who were surveyed and the text of their response so that we can analyze this completely.

Mr. FRANK. It will be done.

["Outcry—Results of a survey on the effects of the administration's proposed 1986 budget on the American people who eight billion times a year step on to a transit vehicle—" APTA, April 1985—retained in subcommittee files.]

Mr. SHUSTER. Thank you.

A recent APTA press release states that, "Transit service in Chicago could quickly face a shutdown crisis," because of the administration's budget proposal. UMTA has informed us that Chicago has nearly half a billion dollars in unobligated or obligated balances in the pipeline. If there is such an urgent need for these funds, why aren't they being spent more expeditiously? Will you comment on that?

Mr. FORD. Yes, let me comment, Mr. Shuster, because I think sometimes it is a question of how you count the apples and how you count the oranges. We just met with the administrator a week ago, and we gave him within the last year several reports on our expenditure and obligation rate. Our obligation rate within our system is well over 90 percent, and all the funds we have received since the start of this program are already obligated.

There are a couple of perturbations that I believe UMTA addresses differently than we do. Let me give you a couple of examples.

We have a long-term contract to purchase 600 railcars from the Budd Co. in New York State. That contract requires, under the terms and conditions of the contract, that it be funded on a yearly incremental basis. We must receive the grant for that contract before we can tell the Budd Co. to go ahead with the next year's procurement of materials and building of the cars.

We don't pay for the cars, obviously, until they are received, progress payments, milestone payments. UMTA consider those funds to be unobligated. I don't know what is more obligated than a 6-year contract with a company that says you are going to pay them every year.

They have also considered to be unobligated in their terms $28 million which we have awarded to a construction company to build a garage, which we haven't paid yet because they have not built the garage yet. In their terms, that is unobligated. In our terms, it is obligated.

I think when you look into it you see that kind of history.

Mr. SHUSTER. Thank you very much.

Mr. ANDERSON. Mr. Edgar?

Mr. EDGAR. Thank you, Mr. Chairman.

Let me begin by complimenting my colleague Bud Shuster from Pennsylvania. As we have been on this committee together over a long period of time, I have come to understand and respect his opinion on both highway, bridges, and public transit issues, and I think that we have both learned from each other, but I think we come together today particularly strongly from the basis of urban and rural, which you make very strongly in your statement, particularly, Barbara, in your statement.

The fact is that if the administration's budget proposal that arrived here February 1 were, in fact, placed on the House and Senate floor and passed, there would be a number of specific systems that would shut down immediately. And most of those systems that would shut down immediately are rural or small city transit systems; is that not correct?

Mr. FORD. Yes.

Mr. EDGAR. I had the opportunity over the last couple weeks to travel around the country and I was impressed with the fact that in almost every city when you pick up a newspaper, including the city of Chicago, which I spent 24 hours in about 2 weeks ago, there was an article about the transit authority and an article about the impact of mass transit budget cuts or service reduction or problems that the particular operators were having.

It occurred to me, an idea that some of you may want to pursue, is that in your efforts to educate Members of Congress and the House and Senate who don't have the time or the ability to survey all of the newspapers across the country, is to put together a packet of articles that represent both large-, medium-, and small-sized transit authorities in terms of the reaction that that is getting out in the real world, because many of us as elected officials kind of have this hunger to read newspapers and sometimes it is a hunger to see our name in the newspaper, but also we tend to follow trends much like John Nesbitt did through looking at local newspaper coverage of particular issues.

I think in the whole area of public transit, there is a national crisis underway which is very hard to see at the Washington level. And you folks can come in because you are prejudiced. You have systems you have to operate next year and these budget cuts will have different levels of impact on what you are doing, but in terms of here in Washington, we don't hear that crisis very much, 66 or whatever percent reduction of operating expenses in discretionary aid and public transit dollars that is included in the President's budget. It doesn't mean much, particularly to Members of Congress who may not have been on a bus for a while. Some of us do ride our local systems but I would guess that 90 percent of the Members of Congress who have to vote on public transit, may, in fact, not use a public transit system. So, I would encourage you to figure out a way to teach us about what is happening with these budget cuts, and one way to do that might be a packet of articles.

Let me ask you a couple specific questions.

Mr. FRANK. Mr. Edgar, could I just comment that we are doing that. We are putting that package together, and we are very pleased that you would be very receptive to it—newspaper clippings around the country.

Mr. EDGAR. I think that would help.

Let me ask you as question on a slightly unrelated subject. Do you know how many cities that are represented by APTA received a part of the Conrail system when Drew Lewis spun off the commuter rail system to local cities?

Mr. FRANK. Jerry.

Mr. PREMO. Mr. Edgar, I would be happy to try and address that, since we are one of the happy recipients of that piece of legislation.

New Jersey, SEPTA, greater Philadelphia area, and New York and Connecticut, suburbs served by Metro North were the most affected by that legislation.

Mr. EDGAR. What was the age of the system that you inherited in New Jersey?

Mr. PREMO. It was first operated in 1864, and occasionally somebody did something to upgrade it. We really inherited a rundown plant, as I know SEPTA, did. Metro North, the old New Haven Railroad and the Harlem and Hudson Lines were likewise in desperate need of capital upgrade.

Mr. EDGAR. It occurred to me recently in relationship to some problems that SEPTA's having that there are three problems that have cropped up since spinning that commuter rail off. The first is the problem of adequate capital to address the roadbeds and the rail and the heavy rail that is involved in railroads; do you have that first problem in your system in New Jersey, and have you noticed other operators having the problem of capital investment?

Mr. PREMO. I just met yesterday with my associates from commuter railroads ranging from Maryland to Massachusetts to talk over this issue. We have included within the Federal Government—required study of rail modernization a SEPTA commuter rail lines. We all have very significant needs. They require investment if we are going to ensure continued safety on the railroads.

What we have done in New Jersey is to put in place a matching program, a so-called transportation trust fund, of highway and public transit money in direct response to the Surface Transportation Assistance Act, and much of that money is targeted to upgrade our rail rolling stock and infrastructure of the railroad. It's clearly a very real need for each of us who operates commuter railroads, not only in the Northeast, but I know Bernie in the Chicago area has a major commuter rail network that is the life blood, along with the CTA of that great city, and other cities have these needs as well.

Mr. EDGAR. The second problem that I am noticing is a problem of morale among employees who once worked for Conrail or

Amtrak, in this case mostly Conrail, and who because of the aggressive nature of negotiations for lower wages and wage scales and work rules can use their bumping rights to bump back to Conrail and to other rail lines that they were part of. What I am experiencing in Philadelphia is that the level of people operating the system may not be as experienced as the former Conrail emoloyees who once operated the system. Do you find that in your system at all, bumping up?

Mr. PREMO. We achieved a limitation in our rail labor negotiations that limited the period during which they could bump back to Conrail or Amtrak. We like to think that we pay our employees a fair wage. We certainly work them hard for that fair wage, hard but in a decent fashion.

What are we going to do about this—as part of this confederation of rail operating agencies in the Northeast, SEPTA is going to take the lead in working with all of us on a training program to see what we can learn from Boston and from the MTA, the Long Island Railroad, PATH, NJ Transit, et cetera, and ways to accelerate the training of our employees, as you say, properly, many of whom are new to commuter rail operations.

Mr. EDGAR. Which brings in my third problem, and that is the safety record of the commuter rail system. I just announced and called for and have gotten agreement for a General Accounting Office study of the commuter rail lines in Philadelphia and some related questions in the other commuter rail lines.

I know that Bill Coleman, former Secretary of Transportation is doing an overall study of SEPTA in Philadelphia. I know that the State government has called for a similar type study. We have enormous problems with safety. Have had accidents and injuries one after another. We have had signals missed, and hope that APTA might keep an eye on that General Accounting Office study in relationship to those cities who have commuter rail. But I guess my question is a fundamental question, and that is—I am going to say it two ways. Is it time for us to take a broader look at whether or not local public transit operators who know how to operate bus systems, trolleys, trolley bus, and light rail as to whether or not they, in fact, can operate commuter rail systems?

Let me ask it a different way: Do you think that those who received that spinoff were adequately prepared to handle the unique problems of running a railroad versus the problems of running a light-rail or a bus system?

Mr. PREMO. Well, among my associates here, the only one who is now running a railroad as a spinoff, I can say absolutely and unequivocably that we were prepared, are prepared, and will continue to be prepared to operate a safe railroad. I have absolutely no question at all about our preparedness to do it.

It varies from place to place, judgments need to be made based on operating performance in each urban area. Anything we can do to work with SEPTA or Long Island or Metro North or anybody else is clearly in all of our interests.

Each of us pursued a slightly different labor strategy. We sought workers from a variety of different places, not only the Conrail employees previously at work, but Amtrak employees and others in the marketplace.

I would rather speak to what I know best, which is New Jersey Transit, and I don't want to leave an hint of doubt in anyone's mind about our comfort in our operating a safe railroad.

Mr. EDGAR. Well, I'd like to say that I have a great deal of doubt. You may be doing it well in New Jersey, but I can assure you that a lot of people in Philadelphia are wondering whether or not SEPTA can handle that responsibility or whether or not some changes both institutionally within SEPTA or within the funding bases or within the morale or within the safety area have to be made in order to provide safe transit.

Just let me tell you one of my fears and I will lay it out as honestly as I can. You start backing off on some of the operating assistance, some of the capital assistance, and you have the drain of that heavy capital need on a system coming into the city of Philadelphia, you are going to start talking about shutting some rail lines that are presently in existence.

We have enormous infrastructure problems with bridges. We have enormous aged road beds, signal problems, and we have a transit authority that is pretty much oriented toward the traditional public transit roles. And I think there is good chance that commuter rail will take the brunt of service cutbacks and shutdowns because it is the hardest to fix. Because we took a bankrupt railroad, we patched it together with Conrail, Amtrak, and the local public authority running it, and we spun it off and gave it to the local public authority. We eliminated capital subsidies. They then have to ship capital from one place to another, and you now start to shrink that budget pie, I think the commuter rail lines are the ones that are going to go. There is a great deal of fear in the Philadelphia metropolitan area for safety, because almost weekly we have some train mishap, some accident physically taking place. I think if APTA is going to help us to make that system work, at least those cities that have rail systems are going to have to help us figure out what legislative changes, what State changes, what local changes or what things we can put in place to assure adequate capital, to assure that the morale of the work force and the training of that work force is secured, and that the safety is above question. And I cannot say to the people of the Philadelphia region that that is the case.

We may be able to say it about New Jersey. We may be able to say it about other authorities, but I think commuter rail is a real sore spot in the Philadelphia area.

Let me close with one final question, and I apologize to my colleagues for taking so long. That is, the question of maintenance. Can you identify how much of the operating assistance dollar that comes from the Federal Government in both rural and urban systems is dedicated to maintaining that system much like, on the highway side, the great testimony from highway developers, highway associations that we have to maintain the existing interstate because of the Federal and capital investment that we have made?

Mr. FORD. I think we can do that, Mr. Edgar, I am not sure we are prepared to give precise figures today for the industry as whole.

Let me say, in my system that we spend approximately a third of all of our dollars, a little bit more than that actually, on maintenance, between a third and 40 percent, just prorating the Federal share on the same basis rather than attempting to assign dollars. That's about what we are talking about as a minimum. There are the operating assistance dollars. Obviously, all of the capital dollars are spent on maintenance or reconstruction or maintenance-related activities of some kind, maintenance of track structure, signals, et cetera.

Mr. **Frank**. I can't give you an exact percentage on it, however, speaking for any midsized transit system, if we were to lose the Federal operative assistance that is projected at the present time, it would have a major impact on the system and we certainly would hope it would not have a major impact on the equipment. Once again, it depends upon the age of your equipment, whether you have a lot of new equipment or old equipment as to how many actual dollars are going into it. But it presents a tremendous potential problem depending upon the management of each system, if their hands become tied due to lack of operating help.

Mr. **Edgar**. Thank you very much.

Mr. **Anderson**. Mr. DeLay?

Mr. **DeLay**. Thank you, Mr. Chairman, and if the members of the committee and the chairman will please indulge me for just a moment. I am new to this committee and new to Congress, but there are a couple of questions that came to mind during your testimony. One was, could you identify either on a national basis or a system-by-system basis a clear correlation between public investment and public transit and increased transit ridership?

Mr. **Premo**. We would be happy to be able to give you some details.

I know in our instance in New Jersey, we are up after two decades of decline in public transit. We bought them out 2 years ago, and we are up about 8 or 9 percent this year.

Commuter railroads in Boston are up 35 percent, now that they finally have some decent equipment to carry their riders in. We have an aggressive and positive story that we will followup with you on.

Mr. **DeLay**. You wouldn't care to make that statement about Houston Transit?

Mr. **Premo**. Well, Houston ran into some enormous problems. They bought buses and there were real problems with those buses. They sought to do, some would argue, too much too soon. However, in the past 3 years or 2½ years, productivity on their system has skyrocketed and ridership is on the rebound.

We can't operate quality public transit out of facilities that are for a different generation plus two. By that I mean, we are operating about a third of our buses in this country out of old trolley barns that weren't designed in any business sense to handle the equipment, to wash when people expect them to be washed and maintain things like lifts and air-conditioners.

Houston now has some new facilities in place, and I know as part of our followup testimony, we would like to be able to devote some specifics to the turnaround in Houston in the last 2, 2½ years.

Mr. **Ford**. As a general matter, Mr. DeLay, since the start of the operating assistance program, for example, ridership in the transit industry across the Nation has gone up about 20 percent.

Mr. DeLay. Over a period since 1975, 1976?

Mr. Ford. 1974.

Mr. Frank. Since 1972 when we took over our transit system—in 1946 there were 60 million riders, in 1972, when we took it over, there were 9½ million riders. We are now carrying almost 14 million riders, and we have never had a year when we haven't increased our ridership.

Ms. Gannon. And I think likewise in rural areas, because the program is young and there are a lot of new building and new programs continuing. You will see a significant increase in ridership.

Mr. DeLay. Thank you.

In your prepared testimony, you cite the productivity gains and economies achieved by local transit property. Precisely, what gains have been achieved in numerical terms?

Mr. Premo. For example, and this ties in with Mr. Edgar's previous question. We took over the railroads on the 1st of January 1983. We had to achieve work rule changes. We took a tough strike, 34 days with no service on our railroads. SEPTA had a 108-day strike, and the Metro North had one of nearly 6 weeks. In each instance, we were trying to achieve work rules that would cause our workers to get a full-day's work for a full-day's pay—something that in the railroads hadn't always previously existed. We are not trying to beat up on employees but rather give them that chance to feel good about earning that day's pay.

What we were able to do, finally, something that did not occur when the Federal Government directly controlled Conrail, was change the work rules so that we pay somebody 8 hours for 8 hours work instead of on a mileage basis.

Believe it or not, in 1983, railroad rules still existed that paid people a bonus for every mile over 100 they were on a train. We changed that, and we have been able to go from service every 2 hours on weekends on the Northeast Corridor in New Jersey to service which this spring will be every half hour, and we have done it without any increase in salaries. So, there is some dramatic improvement in productivity that are success stories of the last 1½ or 2 years forged by local governments, not because the Federal Government is disinterested. But I merely say this with some passion because local agencies are working hard at increasing productivity, and it isn't because of Federal dollars that we are doing this, because we are paying most of the tab.

Mr. Ford. Mr. DeLay, on page 8 of our testimony, we have tried to cite a few of the measures, and those are just a few, but we would be happy at a later time to get into it more or provide some further explanation.

Mr. DeLay. Thank you.

Based upon what you said, Mr. Premo, or anyone else who can answer this question, to what extent are those improvements in productivity attributable to an infusion of Federal capital assistance as distinguished from, say, managerial or organizational and service innovation?

Mr. Frank. Let me just pick up quickly on that. They go together, they absolutely go together. When we can come into our system, which we did, as everyone did, and said we now have dollars, we can now buy uniforms; we can now have incentive programs; we can give you reasons to get out and do the job better; built an esprit de corps within the organization that absolutely increased productivity.

For many years, the transit industry was in a demise. They had a losing syndrome. The people believed they were losers. We had to change that syndrome and develop a winning syndrome, and this winning syndrome has created a better transit system for America.

Mr. **DeLay**. And you attribute that to Federal assistance?

Mr. **Frank**. Unquestionably so. Because, once again, I don't want to go through a whole speech on this. There is no way that it could have possibly been done without, first, the operating assistance and the capital assistance.

Mr. **DeLay**. Thank you.

Just one more, Mr. Chairman. Very quickly, I would like to change the subject a little bit from the type of questions that have been asked. Some within your industry have recently advocated an increase in the fuels tax to about, I believe, 3 cents per gallon in order to expand the Transit Program by some 50 percent or to a $6 billion annual level totally financed by the fuels tax; is that APTA's position?

Mr. **Ford**. Mr. DeLay, Mr. Premo may also want to say something on this. We've done what we think is sound management as part of our industry effort. We are trying to take a look at the long-range future of transit and to determine how we can rationally plan what we ought to do over the next 5 or 10 years, and manage our business better.

Implicit in that, I think, is what we now refer to in the jargon as "strategic planning." Part of our effort has been to look at alternative scenarios for funding and how we could approach those over a long, long term. I think in that process, and we have done a lot of brainstorming and staff work and other things. I think as we have gone through that process, it has been interpreted because inevitably when you go through a process like that you develop paper and you say, "Now, what happens if you do this and what happens if you do that?" A lot of people have read into that that transit is somehow marching in here today and asking for an increase in the gas tax. That is not our position. Our position is as we have espoused it to you.

We are certainly looking at options like that and other options that might be things that we can talk about in future and that might be a future direction for transit, but that is not why we are here today. Nor have we espoused that as an industry position.

Mr. **DeLay**. Well, Mr. Ford, in all those deliberations and in looking at all those different funding mechanisms, do you have a sense of leaning that APTA may have? Do you expect it to become APTA's position?

Mr. **Ford**. I expect, Mr. DeLay, that over the next 6 months, Mr. Premo and his legislative committee are going to do one heck of a lot of work and we will find out.

I think it is a concept that some of our members have expressed happiness with. Other members have expressed unhappiness with. I think we are still finding out.

Mr. **DeLay**. Do you have a comment on that, Mr. Premo?

Mr. **Premo**. I agree completely with the President, Congressman. [Laughter.]

There is real uncertainty as to which way we should go. There are some pluses and minuses to a whole bunch of different proposals. The administration certainly has said that one minus to general support for public transit is that it contributes to the deficit. We have tried to make the case today that it is not a deficit or budget-buster by any means, that we don't think 75 percent of the cuts in the Federal transportation budget should come through public transit. As one alternative in a doomsday scenario, the gas tax is one of many options being looked at. We really do need to think this one through in the context of the decisions that ultimately you are going to be making over the next few months on our fate.

Mr. **DeLay**. Thank you, Mr. Chairman.

Mr. **Anderson**. Mr. Savage?

Mr. **Savage**. Naturally, Mr. Chairman, I had some special concern regarding the question about Chicago, but in light of Mr. Ford's answer, I have no questions.

Mr. **Anderson**. Thank you.

Mr. Moody?

Mr. **Moody**. Thank you, Mr. Chairman.

I would like to ask the APTA representatives if they continue to support the idea of the three for two trade-in? It will be moot, of course, if the administration has its way, which I hope they do not in terms of eliminating operating subsidies, but is support for three for two a very firmly held position at APTA?

Mr. **Frank**. Yes, it is.

Mr. **Ford**. Yes.

Mr. **Moody** Mr. Premo?

Mr. **Premo**. Very essential.

We have talked this through our various committees and I think it is a clear consensus that it fits within, in its broadest sense, the idea of flexibility. So, it is supported officially by APTA.

Mr. **Moody**. And the reason, if you could, for the three to two, why do you support it.

Mr. **Premo**. It affords communities some flexibility. There are a number of places that have a decent bus service—particularly medium- and smaller-sized communities again, that would be hit hardest by the cuts. They were, in fact, hit hard by the cuts that here agreed to as part of the Surface Transportation Assistance Act. We did already absorb a cut in operating aid.

All that the three for two would allow a community to do is to make available back to the Federal Government capital money, $3 in capital, that it wouldn't spend in return for being able to go up to the amount that the Congress and the Federal Government use to allow that community to spend on operating costs. So, it doesn't represent anything brand new, but rather merely an agreement to something that previously existed.

Mr. **Moody**. Right.

Mr. **Premo**. There remains in the three for two, a cap on Federal spending. It is constrained by two things: One is the 50 percent limitation I cited earlier and the second is the amount of transit aid for operating purposes that existed prior to the STAA being enacted.

Mr. Moody. Right.

And I assume that representing the industry, you like it because it gives your operators flexibility they might need. It is their option, it isn't mandated, I assume. If they find that their, either their, operating or their capital is more pressing, more constrained, I should say, relative to need, that it enables them the flexibility; am I correct in interpreting your——

Mr. Premo. Yes, sir.

Mr. Moody. OK.

I assume, therefore, you would like one for one even better?

Mr. Premo. We have not advocated that because we would like to think we are realists dealing with the art of what is doable, and we don't feel that this is the time for new initiatives, breaking brand-new ground. Rather since three for two was part of the deal going into the STAA, we think we would like to continue it.

Mr. Moody. I appreciate your haven't taken the position, but the reasoning would obtain for one for one.

The reason I raise this, I asked Administrator Teal when he was up here before this committee a few years ago why it is that part of the rhetoric of the administration is that local initiative, the New Federalism, letting decisions be made at the local level where the knowledge is greatest, allowing flexibility, the general belief in the block grant approach, why is it when we get to transit, the administration wants to tell the local agency, the local unit of government, whoever happens to be in charge, that in this case Poppa knows best, the Federal Government, and you will spend so much for capital and you will spend so much for operating. I didn't get a satisfactory answer from Mr. Teal, but it seems to me there is a contradiction between the rhetoric of the administration, which is now leading us right down this path where we see ourselves today and the much more sensible approach which is giving you flexibility. Because we have treated operating subsidies as a sort of stepchild, a somehow less-worthy form of assistance, it, therefore, sticks out and is more vulnerable to the kind of rhetorical attack we are now seeing on it.

Do you have any comments on those points?

Mr. Ford. Mr. Moody, I think you are right on target. I don't think the rhetoric associated with that holds up in the face of other types of rhetoric that we hear about how we ought to operate and how we ought to do things locally. It also doesn't hold up very candidly with the thrust toward doing, wherever possible, things that might be done in the private sector. No private sector operation would be constrained like this and management told, "Well, set this over here and set this over here, and you can't use it for what you really think you ought to use it for because there is a rule," so it isn't consistent.

Mr. Moody. Right. Thank you.

On another subject regarding handicapped travel, did APTA take a position regarding the question of user-type subsidy versus ramps on buses and so forth. I don't know whether you were in the room when I talked to the NACo and Conference of Mayors' representatives.

In our town, we had a disasterous experience with bus ramps and kneeling buses, and it was just tremendously expensive. Yet we wanted to do something for the handicapped community. We wanted to meet their needs, but we found out that we could triple or quadruple the service with about half the cost by going to a user-side subsidy, and this helped us because, you know, dollars are tight, and we don't want to leave the handicapped out in the cold literally and figuratively.

Do you have a position on the user-type subsidy approach?

Mr. **Ford**. We have a position on the issue.

Mr. **Moody**. Yeah.

Mr. **Ford**. Well, we agree, certainly, with the local action. We certainly have an understanding of what is mandated from Federal funds that we get, and I think in most cases, you will find that many of the systems spend more than that on the handicapped, but it is a local option. Every community has a different problem, and what would work in California, as an example, may not work in Syracuse where they have ice and snow.

Mr. **Moody**. Would you support the user-type subsidy as an option?

Mr. **Ford**. Yes, sir, any local option that seems to make sense to that community.

Mr. **Moody**. I think you may have heard me mention my town. The service is delivered by private taxicab companies and they do it very well, and all the cab companies are eligible to participate, and they all do.

Mr. **Frank**. We do both. We have a fleet of 16 lift-equipped buses for demand-responsive service, and at one time, they were moving all the senior citizens and handicapped on that equipment. We now move by cab the senior citizen or the handicapped that is not in a wheelchair. That allows us to move more people who are in chairs on our lift-equipped buses.

We actually move over 12,000 riders a month, over 150,000 a year in our little community with the demand-responsive system that is supported by the taxi service.

Mr. **Moody**. Going back now to my earlier question: Would you like to have the option of being able to do your user-side subsidy either out of your operating funds or your capital funds?

Mr. **Frank**. Certainly, we have no problem with that.

Mr. **Moody**. Mr. Premo?

Mr. **Premo**. The issue is a fairly delicate one because it depends on how you define operating and how you define capital. I was reflecting, as you were commenting on the administration's definitions of this, that and the other, of what's capital and what's operating, of some of the frustrations that Mr. Ford and I are going through on major overhauls of locomotives, and how narrowly some of the definitions currently exist. I know your initiative would allow for the inclusion within capital of things that in some ways have been defined as operating in the past, and I think that the discussion that we had most recently at a board of directors meeting of APTA and a meeting on, more broadly, the private-public relationship and how best to further enhance that. It was very important. We have really been pounding away trying to figure out a way to aggressively move ahead.

One approach may be your approach, we hope as part of our longer range financing arrangement that Mr. Ford spoke of, over the next 4 to 6 months, to try and sort out some funding alternatives to be in a position to address specifically your legislation.

Mr. **Moody**. I wasn't really asking so much about my proposal, because it has some specific features. I am just asking generically if you believe that we should have flexibility in capital and in operating, because some systems have more pressure on one side or more pressure on the other relative to available funds, and if that flexibility is good, and if we agree that user-type subsidies can sometimes be the most effective way of delivering E&H. In my town, it's done out of operating, which is unfortunately the tightest money. We are relatively plentiful on the capital side, relatively speaking. Wouldn't it be nice if we could fund E&H out of either side of those two pots, whichever one was the least constrained, under the most pressure. That is all I am asking. I'm asking in generic terms.

Mr. **Premo**. Is it any business but good business to have flexibility. That would allow good management to have management options, and certainly to do what is in the best interest of their community?

Mr. **Moody**. Thank you. Mr. Ford, do you have a——

Mr. **Ford**. I was just going to say yes.

Mr. **Moody**. Thank you, I appreciate that very much.

You know, it gets into delicate issues because all this money—no one wants to siphon this money off for anything else, but I am asking if there were instances when you as the traffic managers, your agency or your various constituents, see it in their best interests to contract out a specific task, like E&H, if it is best handled that way. Would it be in your interest to allow you, the agency or the transit property, to pick the pot of money most convenient to fund it out of rather than be forced by Uncle Sam to tell you which one to fund it out of, that is all I'm asking.

Mr. **Ford**. No question, no question.

Ms. **Gannon**. I would like to interject a comment.

When we are looking at capital assistance being continued for section 18 operations, but operating assistance being eliminated, we need that flexibility. We need operating assistance. We need the flexibility to use either on the local level.

Mr. **Moody**. Thank you very much, I appreciate that. Very helpful.

Mr. **Anderson**. Mr. Lipinski?

Mr. **Lipinski**. Thank you, Mr. Chairman.

When I arrived here this morning, I had 2 questions to ask, now I have about 35 questions to ask, but since everyone wants to go eat lunch, and besides that, I have the opportunity of seeing Mr. Ford on a very regular basis. I will either submit my questions to the committee to be answered or I will submit them directly to Mr. Ford.

But I want to make two quick statements. One, when I arrived here this morning, I really thought that operating assistance was absolutely necessary for New York, Philadelphia, Chicago, Milwaukee, Los Angeles, the metropolitan cities in this country. It is quite obvious by the testimony I have heard this morning that it is really much more important for the rural areas.

I want to reemphasize the point that was made here before. I think you people have to get out and inform the Congressmen from rural areas, how important operating assistance is to their constituents. We, from the metropolitan areas, are well aware of the fact that it is important to us, but it is certainly much more important to them according to your testimony here this morning. That is the first point.

The second point is, and this is a local matter, but Chicago was referred to earlier by Mr. Shuster, Mr. Ford answered the question extremely well, but just for the record I want to say that yesterday I met with Mr. Stanley, and he tells me that in the last 6 to 9 months Chicago and the Federal Government have made enormous strides in correcting whatever controversies existed between Chicago and the Federal Government, so I am quite sure that we won't have this question come up in the future.

Thank you, Mr. Chairman.

Mr. **Frank**. Mr. Chairman, may I just comment, Mr. Lipinski said that operating assistance was essential to rural areas. Operating assistance is the life blood of the medium- and small-sized transit system as well as the rural areas. You are talking about transit systems from 500 buses down. We have a system of 200 buses. We could lose over $2 million of operating assistance. If that were to happen, once again, it would have a tremendous impact on a system of our size.

Mr. **Anderson**. He was also trying to make a point that I was trying to make earlier, and that is that you people have a job to do in getting the rural Congressmen and the small State congressmen to recognize that it is their areas that are going to be really hit, because I don't think that they know that yet. I think you have got a real job to do to get that message out.

My record and yours, Mr. Lipinski, are different. You start out with no questions and have 35. I start out with five unanswered questions and they have been asked by the rest of you, so I am down to only one now, and then we can go to lunch.

My last question is a combination of a couple of them. Let us for a moment think the unthinkable and assume that the administration gets its way with its restructuring of the transit program. The only funds that an urbanized area, outside of the Nation's Capital, received, will be distributed by formula. Under this scenario, is section 9 formula a fair mechanism for distributing funds? That will be my first question. Let me go on.

When the formula was adopted in the Surface Transportation Assistance Act, I recall that some areas went along with it only because they believed, and I suppose we were all naive enough to believe at the time, that they would also continue to get the slugs out of the section 3 discretionary program. If that program dries up, aren't they really getting the worst part of a bad deal? Not only is the program being drastically cut, but then they are eventually getting even smaller parts of the already-too-small pie.

Mr. **Frank**. Let's start with Jerry.

Mr. **Anderson**. Don't forget the one on the section 9 formula mechanism either.

Mr. **Premo**. If I may try, Mr. Chairman. The issue is a terribly serious one. We would like to corroborate with a follow-up. I will give you a quick reaction.

On the formula, one of the things that we fear is that since only capital money will be allocated across the country by formula, it will be allocated to a number of urban areas that won't have transit systems anymore, because they don't have Federal operating aid to operate. And what we fear is that down the road a year, the administration might be able to look at those areas, and say, "My Lord, they haven't spent the money that we allocated to them." And that might be further justification for eliminating even that one remaining penny.

Now, that doesn't deal directly with your comment about the fairness of the formula. The formula itself was the best that we could hammer out, that you could hammer out, given the twin formula and discretionary programs. The major areas, we'd have to take a look at it, and see how it impacted them. And the fact is if you want to pump up money in the major areas, that means it comes out of the hides of 300 urban areas around the country. It would be a tough thing to work out.

Mr. **Anderson**. Any further comments or questions?

Well, the bells have sounded and we have to go vote. I want to thank the panel for an excellent presentation.

We will recess now and we will be back here at 2:20. Do you have anything more you want to add?

Mr. **Gilstrap**. May I just add one more thing. I haven't said a thing this morning.

Mr. **Anderson**. I was wondering if you were going to be quiet all the time.

Mr. **Gilstrap**. I couldn't do it.

I just want to give you encouragement. You may have heard this morning that over on the Senate side, the Budget Committee voted a freeze instead of the President's budget, and Senator Grassley and Senator Andrews both from States that you would certainly say had a substantial rural interests voted for that. So I think we are making some progress.

Mr. **Anderson**. Thank you very much.

[American Public Transit Association prepared statement follows:]

Statement of the
American Public Transit Association
Before the
Subcommittee on Surface Transportation
Committee on Public Works and Transportation
U.S. House of Representatives

March 7, 1985

INTRODUCTION

The American Public Transit Association represents over 300 bus and rail transit systems across the country which carry 94 percent of all transit riders in the United States. In addition, APTA's membership includes over 400 manufacturers and suppliers of transit equipment, consultants, contractors, state and local departments of transportation, planning agencies, and universities.

We are appearing today to present the Subcommittee with our views on the absolutely crippling effect which the Administration's proposed 1986 transit budget will have on communities across the country. In the past appearances before this Subcommittee we have decried massive reductions and the elimination of federal transit funding on a variety of well-supported grounds. In its wisdom and due to the able leadership of this Committee and Subcommittee, Congress has consistently reinforced its commitment to meeting the mobility needs of the nation by resisting the efforts of the Administration to gut the federal transit program. This year, however, we are faced with perhaps the most blatant and devastating attempt yet to kill the federal transit program.

Where the Administration's past efforts were centered on 'phased' reductions, the FY 1986 budget proposal eliminates entire programs in a single sweeping gesture; where past rhetoric has at least acknowledged Congress' consistent intent to maintain the federal transit program, this budget presumes to unilaterally redefine and eliminate the federal interest, disregarding Congressional intent; where meager attempts were made in past budgets to provide some rationalization for proposed reductions, the proposals for FY 1986 are based only on vague philosophy and an occasional anecdote. No decision-maker, public or private, would make even the most routine investment decision based on such superficial rationales and disregard for the impacts, much less a decision affecting the mobility of millions of Americans and the economic vitality of our nation's communities.

We, as well as our colleagues in state and local government, welcome the opportunity to discuss with members of the Subcommittee the inequity and the devastating impacts of an attempt to reduce a $200 billion annual budget deficit by seeking massive cuts in domestic programs which represent only 10 percent of the budget. The deficit must be reduced--we all share this common objective--but there must certainly be a means of achieving the objective in a much more well-reasoned, well-balanced and less disruptive way.

The basic points we wish to make are these:

1) Transit investment needs are sizeable and continue to grow;

2) The Administration's proposal to withdraw federal support is highly unfair and the rationales provided incorrect and misleading;

3) The greatest impacts will fall on the most vulnerable members of our society--the low income riders, the transportation disadvantaged, the elderly, etc.;

4) Transit services in hundreds of communities will suffer immediate, unavoidable and massive declines;

5) There will be substantial negative economic impacts;

6) State and local government are not in a position to replace massive reductions in federal transit support to avoid these consequences;

7) Some balance and equity must be restored to the effort to reduce the deficit; a freeze in domestic programs is a legitimate and productive approach without the disruptive, divisive and unfair consequences that clearly will result from the Administration's proposal.

TRANSIT CAPITAL INVESTMENT NEEDS

Last February, we presented to this Subcommittee the results of a detailed assessment of the nation's transit capital needs. The analysis indicated that a total capital investment of over $36 billion is required through 1988 to ensure the continued integrity, safety and reliability of service to the public. Table 1 indicates how these needs are distributed among major types of projects.

Table 1
FIVE YEAR TRANSIT CAPITAL NEEDS

Project Type	Capital Needs[1]		Percent
Bus		$ 7,725	21.2%
Facilities	$ 3,929		(50.9%)
Vehicles	$ 3,796		(49.1%)
Rail		$28,730	79.6%
Modernization	$15,088		(52.4%)
Extensions	$ 3,783		(13.1%)
New Starts	$ 9,859		(34.3%)
TOTAL		$36,455	

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[1] 1984 dollars in millions

The critical findings which have emerged from this assessment, and which were presented to the Subcommittee in detail one year ago, are:

-- Nearly $8 billion will be needed to meet the capital requirements of the nation's bus systems;

-- Bus capital needs are equally split between vehicle replacement requirements and maintenance facility improvements;

-- 30 percent of the bus fleet is past its economic life (12 years); 33 percent of the nation's bus maintenance facilities are over 40 years old;

-- Modernization of our nation's older rail transit systems requires over $15 billion. Even current levels of investment are inadequate to substantially reduce the backlog of modernization needs; continued under-investment may lead to major declines in reliability and safety, and possible system failures in the near future;

-- Nearly 30 percent of the rail car fleet is past its economic life (25 years); 56 percent of the nation's rail maintenance facilities are over 40 years old;

-- Over $13.6 billion is needed to support new rail system and high capacity fixed facility development over the next 5-years; over 30

> projects in more than 20 areas around the country are now in formal planning or design to meet otherwise unserviceable travel demands.

The analysis of capital investment requirements over the 5-year period indicated that the majority is needed to address existing needs--over 80 percent of the $36 billion required is needed to properly upgrade already existing facilities and equipment or to provide basic levels of service to meet already existing travel demands. It is also our understanding that the 5-year $36 billion figure is generally consistent with UMTA's own assessment of overall transit capital investment requirements. The similarity of these estimates will be more closely confirmed when UMTA releases the results of the rail modernization study requested by the Senate Appropriations Committee in 1982. It is our understanding that final cost estimates associated with the modernization of existing rail transit systems are very nearly completed.

The ample evidence assembled and presented over the past year on the scope of transit capital needs in this country should, by itself, serve as an adequate indicator of the devastating impact of the Administrative's FY 1986 budget proposal. Yet capital investment is only one part of the picture.

OPERATING REQUIREMENTS

The cost to operate and maintain essential transit services in this country now exceed $10 billion annually. Our most recent estimates, shown in Table 2, indicate how the overwhelming share of this burden - over 90 percent - is already being born by those who benefit directly and indirectly, the riders and state and local tax payers.

Table 2
SOURCES OF SUPPORT FOR TRANSIT OPERATIONS AND MAINTENANCE

Source	Amount	Percent
Fares and Other Earned Income	$ 4.45 bil	44.1%
State and Local Assistance	$ 4.78 bil	47.3%
Federal Assistance	$ 0.87 bil	8.6%
Total	$10.10 bil	100.0%

1984 estimate.

The 10 percent overall federal contribution masks some critical factors which lie at the heart of why the federal contribution is absolutely vital and must be maintained:

- Smaller systems are often dependent on federal operating assistance to meet 30-40% of their costs. It is these systems and services that are in greatest immediate jeopardy from a total federal withdrawal; it is these areas that are frequently without the tax base to replace lost federal funds; it is these systems that serve a larger share of low income, transit-dependent users who have few, if any, options to maintain their mobility;
- In large systems, federal operating assistance frequently accounts for 10 percent or less of revenues, but represents large actual amounts of aid--frequently tens of millions of dollars or more; It is just as difficult, if not impossible, for these areas to replace such large amounts of lost federal aid as it is for small areas to replace the high percentage;
- Operating funds are the sole source of support for maintenance activity; if adequate and timely maintenance is to be performed, adequate support for operations must be maintained; if the federally -supported capital investments are to be maintained there should be a parallel federal commitment to the maintenance of that investment;
- In many important instances, increases in transit operating costs are the result, directly or indirectly, of federal requirements and mandates; because these requirements, for the most part, represent worthy national policy objectives, it is reasonable to expect some level of federal support to carry them out.

Transit systems and local officials have achieved considerable success in recent years increasing productivity and controlling costs through a variety of managerial, organizational and service innovations. Intergovernmental support of transit operations at the local, state and federal level has made this possible. Wholesale withdrawal of the federal partner will destroy these achievements and hasten an immediate, unavoidable and massive decline in the extent and quality of basic transit services.

THE FY [illegible] BUDGET PROPOSAL FOR TRANSIT

The Administration's FY 1986 budget proposal for transit is now well understood by the industry and members of this Subcommittee. It effectively represents the total withdrawal of the federal government from the transit program, the abandonment of millions who rely on transit daily, and a broken faith with Congress and local officials over the principles and provisions of the Surface Transportation Assistance Act of 1982 (STAA).

Before assessing the specific impacts of the proposed transit budget, it is worthwhile to briefly outline, for the record, its essential elements. The budget proposes:

1) Slashing overall UMTA funding from $4.1 billion to less than $1.4 billion in a single year--a 67 percent reduction;

2) Slashing major program funding under Sections 3 and 9 from $3.57 billion in 1985 to $1.1 billion in 1986--nearly a 70% reduction;

3) Total elimination of all federal support for operations, maintenance and administration in 373 urbanized areas and 974 small urban and rural systems;

4) Reductions in direct formula capital assistance to 373 urbanized areas of over $400 million;

5) Total elimination of $25 million in capital funding for 858, non-profit providers of service to the elderly and disabled under the Section 16(b)2 program;

6) Reductions from $72 million to $32 million in capital assistance to 974 small urban and rural systems under the Section 18 program.

7) Elimination of $1.1 billion in discretionary capital funding for new systems, rail modernization and major bus projects, and a flat prohibition on any new system development.

It should be no mystery how these massive, immediate reductions will affect transit riders, the communities they live in and the systems that serve them.

There is another dimension to the proposed cuts in transit funding, however, which even better illustrates how the burden of deficit reduction is being placed on transit riders and state and local governments:

1) The proposed transit budget presents barely 1/10 of one percent--.0012--of the federal budget. Yet the proposed cuts of $2.8 billion represent nearly 5½ percent of total spending reductions being sought. Transit cuts are nearly 50 times larger than transit's share of the budget.

2) In 1985 transit represented only 14.3 percent of total transportation spending; the proposed budget would reduce the transit share to 5.6 percent, abandoning any pretense of balanced transportation investment.

3) Total transportation spending is proposed to be cut $3.7 billion; total transit funding is proposed to be cut $2.8 billion. Transit cuts account for nearly 75 percent of the total cuts in transportation.

This type of gross imbalance in attempting to reduce the deficit is both unfair and unwise. It reflects a callous disregard for the needs of our citizens and applies totally unjustifiable double standard with regard to which programs and beneficiaries will be made to sacrifice and suffer.

Administration Rationales

As suggested earlier, there is very little in the way of well-reasoned or well-constructed rationale for what is being proposed in the fiscal 1986 transit budget. Administration documentation provided to Congress in support of the budget proposal contains only general philosophical themes that have been heard before and have proven to be unsupportable, and occasional anecdotes which in no way accurately reflect or characterize the transit industry.

The heart of the rationale is a vague intergovernmental philosophy left over from the Administration's new, "new federalism" concept which states there is no federal interest or role in transit, that transit is a strictly local matter. Both history and recent actions by the Administration itself clearly indicate the reverse:

-- For twenty years, the federal government has articulated, refined and reinforced the significance of transit and the vital nature of the federal interest. The statutory objectives and purposes for the transit program are built around issues of undeniable and broadly accepted national interest, both social and economic;

-- Transit providers are called on directly by law and regulation to ensure the achievement of worthy national policies, often at considerable added cost. Buy America, civil rights, environmental protections, minimum wages and guarantees of service as well as low fares to the elderly and disabled are just a few examples;

-- Finally, despite the vague insistance by OMB that there is no federal interest or involvement in local transit operating decisions, this Administration's own Justice Department went to the Supreme Court to insist that federal wage requirements under the federal Fair Labor Standards Act be applicable to transit, since transit was not, in their eyes, a traditional function of local government.

It is ironic also that other of the Administration's proposed FY 1986 budget actions will significantly increase costs to transit operators at the same time federal support is withdrawn. The proposal to withdraw federal support from AMTRAK--a questionable proposal in its own right--will automatically add over $82 million to the budgets of four major east coast systems who must take over operations on portions of the Northeast Corridor.

It should be obvious that the philosophy on which this budget is based is simply wrong and, more to the point, strongly contradicted by the deeds of the Administration itself.

A second general rationale for gutting the UMTA program is that the presence of federal funds has caused inefficiencies and cost increases in transit service delivery. Without belaboring the point, the reverse is, in fact, the case.

Major facts to consider are these:

- As the federal transit program grew to its peak from the early 1970's to 1980, transit ridership grew 26 percent, basic services were rescued from collapse in hundreds of communities and fares to the rider were maintained at reasonable levels in response to specific Congressional directives;
- With respect to control of labor costs, from 1976 through 1984, the percentage wage increase for bus operators has been *equal to or less than* the wage increases of other workers under major labor contracts *for every single year*. This occurred while the federal operating program grew to its peak and while ridership reached its all-time, post-war high;
- During the period 1970 to 1975, *before* the federal operating program was instituted, productivity measures were in the *decline*; from 1975 through 1980, *coincident with the growth* in the federal program, productivity measures show major *improvement* (1):

	1970-1975	1975-1980
Passengers/Employee	- 7.6%	+ 14.4%
Passengers/Vehicle Mile	- 2.0	+ 18.0
Vehicle Miles/Employee	- 5.7	- 3.1
Operating Expenses (Constant $)	+ 36.6	+ 5.0
Expense/Passenger (Constant $)	+ 36.0	- 14.9
Expense/Vehicle Mile (Constant $)	+ 33.3	+ 0.5

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(1) Based on analysis of 44 systems representing 65 percent of national vehicle miles of service and 70 percent of all passengers carried.

The claim that federal support has caused declines in productivity and efficiency is simply incorrect. Federal support has promoted increased ridership, increased productivity and ensured basic levels of mobility throughout the country.

A third general rationale for slashing the transit program is the claim that support is unwarranted because direct users do not pay fully for the service they receive and that the program predominately serves high income, white collar, suburban commuters. Again, several points can be made:

-- Direct transit users pay 40 percent of the operating cost through the fare box; indirect beneficiaries--state and local residents--pay another 47 percent; nearly 70 percent of the UMTA program is equitably returned to areas via a formula which is based on population and extent of service in the region. Users and beneficiaries are paying their fair share and receiving a fair level of support from the federal program.

-- A narrow user-fee philosophy should not be the primary test of the need for or legitimacy of programs or policies, as the DOT budget implies. A host of major programs of long-standing federal interest require citizens of one region to support the needs of citizens in another, all to achieve undeniable national social and economic goals, e.g. non-consumers support tobacco and other agricultural subsidies; childless couples and individuals pay property and other taxes to support education; the midwestern farmer's taxes support coastal zone management and coast guard activities. The list can go on and on and would include the fact that more populous states heavily subsidize the extensive federal aid highway costs of less populous states. Even in the private sector, cross-subsidies frequently exist among productive units of a single organization.

  We are a highly integrated society in our social, economic and governmental interdependencies. Major federal policy, budget and investment decisions driven totally by a user-pays mentality are naive, disruptive and divisive.

-- Transit is decidedly not a service catering predominently to the high-income, white collar suburban commuter. Up-to-date figures on the profile of today's transit riders are provided in the following section in order to clearly demonstrate the broad ranging characteristics of today's transit riders and the substantial core of riders that is low-income, transit-dependent or otherwise disadvantaged.

As a final point in the Administration's rationale for withdrawing support for public transit, we have noted a statement suggesting that, 'the mass transit problem has been partially solved.' One need look no further than the data summarized on page 3 in this statement on the current condition of our nation's transit facilities to see the absurdity of such a statement. Even at current levels of support from the federal government, the existing backlog of critical transit investments cannot be substantially reduced. To withdraw, claiming victory is an insult to the Congress, the transit industry and, most important transit riders.

Again, the Administration's entire budget proposal for transit rests solely on vague philosophy and occasional anecdotes that are gathered together to intentionally misconstrue the facts and mislead the reader. There is no credible rationale whatsoever to support the immediate, massive cuts proposed for transit and virtually no acknowledgement, understanding or apparent concern over the impacts.

IMPACTS OF THE PROPOSED TRANSIT BUDGET

That the impact of immediately reducing federal support for transit by 70 percent would be disasterous for riders, communities and business should surprise no one. Transit systems as well as state and local governments operate on the margin, with virtually no cushion to absorb the kinds of reductions being proposed, either in the transit program or in the host of other domestic programs slated for major cuts or elimination.

The impacts can be characterized in a variety of ways, by looking at who the riders are that will be harmed most, by looking at the likely impact on actual transit services and by looking at the impacts on the economy and business community.

Who Will be Harmed?

The primary mission of public transit is to provide a basic level of mobility to those who have no other means of travel and to provide effective options to those who do. In serving these two people-oriented objectives our broader social and economic objectives are served as well.

A host of misconceptions exist about who uses public transit. Many of these misconceptions are being fed by the Administration in its attempt to use anecdotal information to inaccurately characterize public transit. One example is their suggestion that public transit predominately serves the commuting needs of high income, white-collar professionals. This is totally inaccurate and, in fact, directly contradicts estimates made by the Department of Transportation itself.

The truth of the matter is that public transit serves the broadest possible spectrum of needs and people. More importantly, the core of today's ridership is composed of those who are wholly or highly dependent on transit for their basic mobility. Transit is, in a very real sense and always has been, a critical part of the 'social safety net.'

Results of ongoing survey efforts among transit systems across the country graphically demonstrate the degree to which transit is a basic lifeline for the low-income and disadvantaged. Even the Administration's own assessment of transit ridership characteristics strongly supports the figures noted below. (2)

Recently assembled ridership statistics from 140 transit systems which operate over 75 percent of the nation's transit vehicle fleet Reveal the following ridership profile:

-- 60% of transit's riders have incomes under $20,000 per year; 33% have incomes under the poverty level of $10,000 per year;

-- The Administration's own estimates are even higher--71% under $20,000 and 40% under $10,000;

-- 28% of transit's riders are in age categories (under 16 and over 65) with limited access to automobiles and/or diminishing ability to use them;

-- 16% are over 65 years old, a population group expected to grow substantially in future years;

-- Administration estimates closely parallel these figures on age of riders;

-- Nearly 60% of transit riders are female;

-- Nearly 40% are minority;

-- 54% of trips made on transit are made for work purposes, reinforcing the economic significance of transit for both employees and employers;

-- The remaining 46% are for a variety of non-work purposes, including shopping, personal business, medical social, etc., indicating the role of transit in supporting the social and cultural fabric of the nation.

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(2) See assorted tables, pp. 25-31, contained in the Administration's report to Congress, "The Status of the Nation's Local Public Transportation: Conditions and Performance," Report of the Secretary of Transportation to the U.S. Congress, pursuant to Section 310 of the STAA of 1982, submitted in September, 1984.

In looking at this brief profile of transit ridership it should be clear that public transit is an essential service both socially and economically. If the drastic cuts proposed by the Administration are enacted, the largest share of the impact will be born directly by those least able to cope. The social safety net has already been stretched to the breaking point. Eliminating transit aid and unraveling the few threads that remain would be an unconscionable act of total disregard for the needs of our nation's most vulnerable citizens. The question of fairness is central to a discussion of the transit cuts.

What are the Impacts on Systems and Services?

The direct and immediate impacts of the Administration's proposed transit cuts on riders are driven, in large part, by the direct effect on transit systems and services.

APTA member transit systems were surveyed on the likely impacts of the proposed cuts. Survey results from over 150 systems which carry 75 percent of the nation's transit riders are unequivocal--the impacts will be devastating, they will be immediate and they will be broad-based. It is absurd for anyone to suggest, that the results of an immediate 70 percent reduction in funding could possibly be otherwise.

In general terms, the survey indicated that riders will be stranded by the millions, including transit-dependent, elderly, handicapped, low income and those too young to drive, as well as workers who have until now, been able to leave their cars at home. Badly needed rehabilitation and maintenance investments will be delayed or foregone entirely, precipitating rapid declines in service quality, reliability and safety.

Major new capital investments badly needed to serve rapidly growing areas of the county where street and highway networks are already over capacity will be indefinitely delayed or abandoned. Massive service cuts will be inevitable with a considerable number of local area systems, both large and small, facing complete collapse. Where services can be retained, fares would have to be raised immediately, often to unprecedented levels just to maintain even skeletal levels of service.

Drastic impacts from the proposed cuts are no longer limited to smaller systems which have traditionally been more dependent on federal support. Transit systems, of all sizes, their riders and the communities they serve, including many of our nation's major metropolitan areas will be dramatically effected.

Although transit systems were not asked directly if they would shut down, nearly 20 percent noted specifically, on their own, that a shutdown was an imminent possibility. Fully 90 percent used terms such as "catastrophic," "dramatic," "drastic," etc. in characterizing the effects of the proposed budget cuts in their region. Details from the survey are highlighted below.

o When asked about the impact of total elimination of federal operating assistance, transit systems indicated:

- 88 percent will be forced cut service dramatically;
  - 7 of every 10 systems will cut services more than 20%
  - Nearly 1 in 3 systems will cut service more than 50%
  - 1 system in 7, mostly in smaller areas under 200,000 population, will cut service 90 percent or more;
- 82 percent will be forced to raise fares substantially;
  - Nearly ¼ of those, mostly small systems, predicted increases of 90 percent or more;
  - Nearly ½ projected increases of 50% or more;
  - These increases will occur on top of a national average base fare of nearly 60¢, currently;
- 87 percent anticipate major declines in ridership; 6 of every 10 systems predict ridership losses of 20% or more;
- the percentages of systems expecting major fare increases, service cuts and ridership losses was consistent among systems of varying size;
- 78 percent anticipated substantial reductions in mobility for transit-dependent populations in their areas; direct effects on elderly, handicapped, low income and the young were noted consistently in areas of all sizes;
- Nearly 2/3 predicted tangible, negative impacts on their local economies.

o When asked about the impact of major reductions in federal capital assistance, transit systems indicated:

- 70 percent would be forced to forego the purchase of new bus vehicles;

  This, despite the fact that over 30 percent of the nation's transit bus fleet is past its useful economic life of 12 years.

This response alone could kill the nation's domestic bus manufacturing industry, already on brink of disaster from 4 years of threatened federal withdrawal which has reduced the U.S. transit bus market from nearly 4,500 vehicles per year in 1981--the level necessary to replace over aged vehicles--to less than 2,000 in 1984.

-- 30 percent would be forced to forego vital rehabilitation or replacement of maintenance facilities;

This, despite the fact that:

-22 percent of the nation's bus maintenance facilities are over 60 years old;

-33 percent are over 40 years old;

-17 percent have severe capacity restrictions even at current operating levels;

-- 5 regions would completely forego rail system construction;

-- 5 existing rail systems would be forced to forego urgently needed major rail modernization activity.

o The result of greatly reduced federal capital investment will exaggerate the overwhelming impacts of the elimination of operating assistance:

-- 58 percent indicate service levels will be further reduced by capital funding reductions;

This effect is stronger in medium and larger areas where 68 percent of the systems responding note service reductions stemming from the loss of federal capital funding.

-- 60 percent foresee declines in the quality and reliability of service, in addition to reduced levels of service;

-- 84 percent of the larger systems project decreases in service quality;

-- 63 percent note that their ability to maintain equipment will be adversely affected by reductions in capital funding.

What are the Economic Impacts of the Cuts?

The impacts of the Administration's proposed withdrawal from the federal transit program extend well beyond the direct effects on riders and services. Massive reductions in the transit program will impact every segment of the economy. Without question, the reductions will be counter-productive to the achievement of further economic growth and will create a drag on economic performance of which the Administration is apparently unaware.

Based on detailed analysis of the economic impact of transit investments carried out by APTA in 1984 using Commerce Department data and models, the following impacts are projected:

- For each $100 million of capital funding lost,
  - a loss of 7,600 jobs;
  - a loss of $327 million in business revenues;
- For each $100 million in operating support lost,
  - a loss of 9,600 jobs;
  - a loss of $305 million in business revenues.

The aggregate impact of the Administration's proposed transit cuts would, therefore, cost 203,000 jobs and a loss of $8 billion in private business revenues.

Private businesses which supply goods and services to the industry were also asked what impact the Administration's transit budget cuts would have on their businesses. These results serve to reinforce the counter-productive nature of the proposed cuts in terms of fostering national economic stability and growth. Of the manufacturers and suppliers surveyed:

- 70 percent view the proposed capital cuts as "severe" or "disasterous" for their business;
- 46 percent anticipate plant or office closings as a result of capital cuts;
- 87 percent project layoffs averaging 13 percent of their present personnel;
- 73 percent project immediate, direct revenue losses of over $300 million, or close to $1 billion if multiplied throughout the entire economy;
- 45 percent anticipate withdrawal from the urban transit market.

The perspective that is absent in the Administration's philosophy has been articulated most eloquently by members of

Congress, local officials and state officials in recent weeks. That is, support of domestic programs generally, aid to state and local governments and assistance for public transportation specifically, should be viewed as fundamental investments which are essential to support our nation's social and economic structure in ways that are every bit as vital as our defense expenditures. Investment in public transportation must continue to be viewed as part of the solution rather than part of the problem; failure to do so and the precipitious withdrawal of support for domestic programs like transit will only serve to increase our problems.

Based on the survey results summarized above, reductions of the scope being proposed for the transit program will cause drastic reductions in mobility, weaken our general economy and possibly destroy our domestic capability to meet future mobility needs.

SHIFTING THE BURDEN TO STATE AND LOCAL GOVERNMENT

Much of the recent rhetoric concerning major cuts in domestic programs and assistance to state and local governments revolves around claims by the Administration that state and local budgets are showing surpluses that can accommodate the withdrawal of federal support. Without going into detail it appears as though the arguments and analysis offered by the Administration have been refuted by state and local officials.

Based on comments of APTA transit system members and manufacturing members, as well as the information now available from state and local officials, it is obvious that massive federal cuts cannot be made up from state and local sources.

In our survey of the transit industry, we pointedly asked whether the proposed transit cuts could be replaced from other sources. The results are clear--they cannot. Almost nowhere, either among transit system operators or businesses serving transit systems, is there a realistic expectation that any combination of increased local, state or even private funding can replace the near total elimination of federal support:

-- 90 percent of the transit systems surveyed said neither local nor state sources individually could replace lost federal operating or capital assistance;

-- 79 percent said the combination of local and state sources could not replace lost federal operating aid; 90 percent said the combination could not replace lost capital assistance;

-- Most telling of all, when asked if combined local, state, and private sources could make up the federal cuts, 77 percent said 'no' with respect to operating aid and 86 percent said 'no' with respect to capital funding.

- 89 percent of the manufacturers and suppliers of transit equipment and services do not believe local and state governments will be able to replace lost federal capital aid.

These are strong, near-unanimous sentiments from careful observers of the state and local scene. These views are reinforced in recent analyses of the fiscal condition of state and local government done by the National Governor's Association, the National Association of State Budget Officers, the National Conference of State Legislatures, the National League of Cities and the U.S. Conference of Mayors. Their representatives will, no doubt, provide the Subcommittee with a more detailed and compelling review, but the key facts are these:

- State 'surpluses' have increased largely because of emergency tax measures and emergency service cuts enacted during the depths of the recession as a matter of prudent and responsible management of a major fiscal crisis;
- Continued sound and responsible management will require these actions be reversed and basic service levels be restored before new responsibilities can be shouldered;
- The end-of-1984 state 'surplus' was $6.3 billion, 3.9 percent of budget. This is still substantially below the 5 percent figure Wall Street deems a safe, prudent margin;
- Only 18 states had a 'surplus' over 5 percent at the end of 1984; only 8 states accounted for half of the 'surplus;'
- The projected 'surplus' will fall in 1985;
- With respect to transit, of the 18 states with a 'surplus' over 5 percent, only 4 can be considered major transit states;
- The largest 'surpluses' occur in states typically without major transit needs; the states where transit needs are greatest, have the smallest 'surpluses'.

City and county governments are in no better position than the states to absorb the huge transit cuts being proposed. Their revenue collection capacity is severely constrained in the vast majority of cases. Ironically, it may be further constrained by the emerging tax policy of this Administration which would either eliminate various financing options or raise their cost to local government significantly. In the mean time local governments continue to struggle in meeting the public facility and service needs of ever-growing central city populations of the poor, the unemployed, the hungry and the homeless.

It is clear for the time being, that state and local officials, including transit managers and policy makers, have sacrificed and struggled to retain basic levels of public service. Rather than reward these achievements and insure that basic public services like transit remain in place, the Administration's budget is punitive, further punishing those who have already sacrified the most. The result will not be a replacement of lost federal aid, but a further wholesale decline and elimination of essential public services, transit among them.

TRANSIT'S PAST CONTRIBUTION TO DEFICIT REDUCTION

Public transit operators and riders have made a substantial contribution to deficit reduction since the current Administration took office in 1982. Appropriations for the major federal transit programs totaled $3.718 billion in 1981 ($4.462 billion in 1985 dollars). Last year actual appropriation levels for these programs totalled only $3.570 billion. In 1985 dollars, transit funding has been reduced $892 million since 1981--a 20 percent reduction and nearly a billion dollar contribution to deficit reduction.

In addition, $1.2 billion in gas tax revenues accruing in the Mass Transit Account of the Highway Trust Fund will have been denied to transit systems by the end of 1986 under existing obligation limitations. Inability to utilize these funds brings the total transit contribution toward deficit reduction over $2.0 billion if 1986 funding were frozen at 1985 levels.

If other programs and budget functions had made similar contributions, there likely would be no deficit problem today. Constructing a fair and effective budget for 1986 should include consideration of the substantial contributions already made in a variety of federal programs, including transit.

SUMMARY

This Subcommittee, the full Committee and Congress was wise in the development and passage of the Surface Transportation Assistance Act of 1982. We continue to believe that the STAA represents an important, forward-looking and reasonable federal commitment to the long-standing transit partnership--a commitment that can be fulfilled in concert with both social and economic goals and the need to achieve reductions in the deficit.

It is regrettable, however, that the Administration has chosen to support only selective portions of the law and to disregard the language and intent of other sections. Contrast the testimony of FHWA officials on how proud and responsibly the Administration is fulfilling the highway provisions of the STAA with the total disregard of OMB, UMTA and other top Administration officials for the transit provisions. The Administration's budget, in fact, cannot be implemented without passage of authorizing legislation that would gut Title III of the STAA.

We fully support and applaud the efforts of the Administration to live up to the highway provisions of the STAA. But what is sauce for the goose should be sauce for the gander. We desire, as I am sure members of this Subcommittee desire, nothing more than adherence to the intent of the law and good-faith actions to carry out that intent fully, and in a timely manner.

In closing, we look forward to the support of the Subcommittee and full Committee in opposing the drastic budget proposals and related legislation that will be introduced on behalf of the Administration; we also look forward to again supporting your efforts to enact legislation similar to H.S. 5504, which is urgently needed to make important improvement in the STAA.

Finally, in the long-term, we anticipate working closely with the Committee and Subcommittee in shaping a reauthorization proposal that can both sustain the federal role in support of transit and can assist in reducing the budgetary impacts of the transit program at the federal level.

Mr. ANDERSON. At this time we will recess.

[The hearing was recessed to reconvene at 2:20 p.m. of the same day.]

AFTERNOON SESSION

Mr. ANDERSON. The subcommittee will please come to order.

We wish to welcome our final panel, Mr. John Clements, president of the Highway Users Federation for Safety and Mobility; James Supica, chairman, highway division, Associated General Contractors; and Mr. Eugene M. Johnson, treasurer, American Road and Transportation Builders Association.

We have your prepared statements. They will be placed in the record.

Mr. Clements.

TESTIMONY OF A PANEL CONSISTING OF JOHN A. CLEMENTS, PRESIDENT, HIGHWAY USERS FEDERATION FOR SAFETY AND MOBILITY; JAMES SUPICA, CHAIRMAN, HIGHWAY DIVISION, ASSOCIATED GENERAL CONTRACTORS; ACCOMPANIED BY JOHN R. GENTILLE; AND EUGENE M. JOHNSON, TREASURER, AMERICAN ROAD AND TRANSPORTATION BUILDERS ASSOCIATION

Mr. CLEMENTS. Thank you, Mr. Chairman.

I am John Clements, president of the Highway Users Federation.

The federation is a national coalition of businesses, industries, and individuals with economic and social interests in an efficient and safe highway system. Our members are consumers and producers of highway transportation products and services.

We appreciate the opportunity to be here, Mr. Chairman, and express our concerns and views on the administration's funding proposal. I guess we'd like to start first by saying that we certainly share this committee's concern, as well as Congress' overriding concern, about the direction of our economy and the problem of getting the deficit under control. We certainly appreciate the fact that as Congress looks at various programs, there aren't probably going to be any that are unscathed this year.

As far as we are concerned and as far as the highway interests in the country are concerned, we can't overstate the case that we believe that a first-class economy really needs a first-class road system. We think roads are an inseparable part of our industrial, agricultural, technological, and touristic strength in this country; and if we are going to continue to be effective in the world marketplace today, we have to have that system of highways in place to service our industry, and we are certainly always mindful of the defense aspect of the system.

As far as highway funding is concerned, from our members' point of view and businessmen's point of view everywhere, we think bad roads add to the price of products and contribute to inflation. They increase truck fuel consumption, and in all reality, highways are really a conveyor belt linking our whole industrial and economic fabric together. A conveyor belt almost to the extent that it is a movable inventory conveyor belt. As I think you realize, Mr. Chairman, most major industries today have inventory moving on that conveyor belt at all times, so it is not an inventory even in their plants, but it is on the highway at all times, and when that system breaks down, it creates chaos in our economic system.

Indeed, roads have gone from the era of farm-to-market roads to, in effect, harbor roads which agricultural products go, accounting for a fifth of our Nation's output. So, if we are to reverse the trend of economic deficits internationally, that is an indispensable investment that only government can make.

As far as deficits are concerned, with a pay-as-you-go system such as the highway trust fund has always been, it by law cannot create deficits. Just as we would expect the private sector to continue to make capital investments in its plants and equipment, to be economically viable for world trade, we expect government to do the same thing with highway user fees in terms of investing in the capital investment in our Nation's highways.

Because the system isn't debt-financed, we believe that lowering obligational limits will not decrease the Federal deficit.

We believe obligational limitations are unnecessary. We would hope that Congress would use full authorization level for this fiscal year. However, I guess we have to go on—in light of my opening statement—to say that if obligational limits are imposed, we would suggest the $14.4 billion obligational limit contained in the STAA of 1982.

Beyond this, I guess we have to say right here, Mr. Chairman, we are very grateful to you and the whole committee's efforts in passing the interstate cost estimate.

This testimony was obviously written prior to the passage of the interstate cost estimate, and I think the start that Congress has made this year by passing expeditiously the interstate cost estimate is the best move we certainly have had, and we look forward to having that behind us. We hope that this budget issue can get behind us quickly, because as you said in opening statements along with Chairman Howard, the real issue of this Congress, we think, is the developing of a future highway program and what should be in it.

As for highway safety, we were pleased to see that the President's present submission contained a welcome surprise and it recognized highway safety and fully funded section 402.

We worked closely with the committee on the passage of H.R. 4616 that you introduced to fund comprehensive child restraint programs through section 402. In our judgment, fully funding 402 is essential to insure that this vital lifesaving legislation is implemented as intended.

We also think efforts should be made to fully fund 402 to enable States to enforce the national maximum speed limit. I'd like to submit for the record, Mr. Chairman, our testimony to Congressman Glickman and the House Science and Technology Committee on the subject of 55 miles per hour.

[Letter referred to follows:]

Highway
Users Federation
FOR SAFETY AND MOBILITY

OFFICE OF THE PRESIDENT

February 25, 1985

The Honorable Dan Glickman
Chairman
Transportation, Aviation and Materials
  Subcommittee
House Science and Technology Committee
U. S. House of Representatives
Washington DC 20515

Dear Chairman Glickman:

The Highway Users Federation appreciates this opportunity to present its view on the National Maximum Speed Limit, the subject of your hearing on February 21, 1985.

The Federation is a non-profit coalition of over 400 companies and business associations. Our membership cuts across 27 industrial and commercial categories united in their common interest and concern for safe and efficient highway transportation.

The Federation strongly supports compliance with the national 55 mph speed limit, and the enforcement necessary to achieve that compliance.

When Congress enacted the speed limit in 1974, its stated purpose was to conserve fuel following the Arab oil embargo. In the study of the National Maximum Speed Limit by the National Research Council, it is reported that an estimated 167,000 barrels of petroleum are saved each day because of reduced speeds. This amounts to about a $2 billion annual savings.

However, the safety payoff from the National Maximum Speed Limit, has been even more dramatic. The National Research Council reports that, adjusting for the reduction in the fatality rate during the last decade as well as the increase in travel and average speeds during that period, about 2-4 thousand lives were saved in 1983 as a result of the 55 mph speed limit. In addition, 36-65 thousand fewer injuries occurred in 1983 because of the slower speeds and the more uniform pace of travel brought about by the 55 mph speed limit.

This remarkable safety payoff has persisted over the past decade despite the trend to slightly higher average speeds, and the National Maximum Speed Limit continues to be one of the most effective measures in the history of highway traffic safety. For these reasons, we continued to support the National Maximum Speed Limit and its full enforcement in every state.

We are concerned that failure of states to meet requirements of the speed limit will jeopardize a portion of their Federal-aid funds. This is a serious threat in time of growing highway needs, and reductions in the Federal-aid program by reason of delay in passage of the Interstate Cost Estimate by Congress, and other federal deficit considerations.

We believe that states have the responsibility to fully enforce the speed limit for reasons of safety and energy conservation. Furthermore, we are concerned that enforcement focus on segments of the state's highway system where reduced speed will produce the greatest safety payoff. The National Research Council study has provided important insights into the strengths and weaknesses of the current compliance requirements and methods for assessing that compliance by the several states. This information should be considered in any Congressional deliberations relative to the national speed limit.

We would urge the Congress to continue its support for the national speed limit in the interest of public safety.

Sincerely yours,

John A. Clements

Mr. **Clements**. In addition to section 402, we support the $28 million funding level for section 408, Alcohol Safety Action Grants. We also would support new appropriations from the highway trust fund to promote occupant protection, and I would like to also submit for the record our testimony before House Appropriations in that regard.

[Statement referred to follows:]

STATEMENT OF THE HIGHWAY USERS FEDERATION BY JOHN A. CLEMENTS, PRESIDENT

I am John Clements, President of the Highway Users Federation.

The Federation is a national coalition of businesses, industries, and individuals who are major consumers of highway transportation products and services. For over 50 years, we have been concerned about—and active in reducing—the social and economic losses resulting from highway crashes.

The Federation believes that one of the most beneficial means to reduce the enormous social and economic losses we experience each year as a result of highway crashes is the enactment and implementation of effective safety belt use laws at the state level.

We therefore welcome this opportunity to appear before this Subcommittee to support new appropriations to the National Highway Traffic Safety Administration. Such appropriations should not be made at the expense of, or diminish, other ongoing programs. These new appropriations should be used for an aggressive education program to tell the public of the benefits of safety belt usage, and to assist states and communities in implementing safety belt legislation. These educational efforts should also provide information too—but not lobby-decision makers at the state level on the benefits, effectiveness, and the public safety expectations of using safety belts. We agree with the Committee's concern about lobbying state legislatures with federal funds, but believe this problem can be avoided.

We also believe that these funds should be used to show the effectiveness of safety belt use laws and corporate policies which require belt use by employees. This information should be given the widest possible distribution.

Specifically, we strongly recommend that NHTSA assist each state in the effective implementation and evaluation of its safety belt legislation. This assistance could include: funding public educational programs at the state and community level; training law enforcement personnel; providing educational materials to schools, social, civic, or fraternal organizations; dissemination of belt use effectiveness information.

Reliable data on the effectiveness of safety belt use legislation is vital. We are pleased that NHTSA is currently funding evaluation efforts in New York and New Jersey. We encourage this support for every state that enacts a safety belt law.

We believe such evaluations should span at least three years to evaluate the longer-term social and economic benefits derived from belt use legislation and to assure that initial gains are not lost due to public apathy. Clearly, some funding in this area should go to assist states in developing and maintaining adequate records which are essential to sound evaluation.

The same thing should be done in the area of child restraint legislation. We are pleased to note that as of last week all 50 states now have child restraint laws. However, we do not have national uniformity in child restraint use requirements. We need to know what works and what doesn't, so that legislators can improve the laws in their own states. The results of these evaluations would result in more young children being protected and more lives saved.

In closing I would like to say that we believe the Federal Government should demonstrate leadership in seeking universal safety belt use. The executive branch should promulgate regulations requiring belts to be worn by all federal employees while on the job, as well as by employees of contractors working on federal projects. In addition, provisions should be made to require belt use by persons driving or riding in a motor vehicle on highways on public lands under the jurisdiction of a federal agency, including national park-managed roads and highways. Military bases have already done a commendable job on getting personnel to buckle-up.

We as a nation have everything to gain if all elements of society—public and private—pull together to support the enactment and effective implementation of safety belt usage legislation.

Mr. **Clements**. I would like to spend a little time, if I might, Mr. Chairman, with mass transit, because I believe the position of highway users has been somewhat misunderstood in that regard, and I know it is important to you personally and to the committee.

I was president of AASHTO at the time that the STAA was being enacted and as you remember, Mr. Chairman, I worked quite hard with AASHTO to support the one penny to subsidize transit.

Our official policy at the federation is that we long have and at present still do support strong and cost-effective mass transportation systems in this country. Our interest in the transit system has increased because highway user fees are now going into that program, and our main interest is to make sure that that program is as cost effective as possible.

We think the highway program has been a piece of good legislation. It should be a model for transit legislation. We think a lot of the things that have proved so successful and so popular with the public, as far as the highway program is concerned, could stand to be emulated in the transit program.

We think to the maximum extent possible, the transit program should be financed by its beneficiaries. We think Congress should define national goals and take only a limited role in the ultimate system, design, and construction, which is traditionally carried out by the local authorities. We believe that the Federal funds should be only used as a portion of the cost of those programs.

We support the administration's notion that the transit program be funded from a dedicated source, such as the mass transit account. But let me hasten to say that we would aggressively oppose any further efforts to divert additional highway user funds to mass transit programs.

I feel badly that the transit program appears to be weakened by the suggested budget. I would have to say at the outset, Mr. Chairman, it is somewhat embarrassing to have to talk about somebody else's program. In fact, I feel awkward talking about a transit program because quite frankly highway users have enough problems of their own without talking about somebody else's program. But if it gets into the arena where highway user fees are going to be used to finance further transit, then, we would have to get into that.

At this point in time, I think that the best comment we could make on the transit program would be that we should emulate as many of the good features of the highway program as possible.

Ironically, more money comes from the highway trust fund for each transit rider than for each highway rider. We estimate approximately 13 cents per-person trip as compared to 4 cents per-person trip on the highway system. A lot of money already comes from the highway fund since 70 percent of all trips take place on the road systems on which buses ride and which are fully financed by highway user fees. With those brief comments on transit, we think that the transit capital funds should be keyed to serve the transportation requirements of the greatest number of people, based on where they live.

We like the idea of distributing funds to all States on a formula basis, as the highway program does, and we think that would be appropriate for the transit program.

We are disturbed over the administration's proposal to change the funding source of interstate transfer grants from general revenue to the highway trust fund. This change would cost highway users about $1.2 billion through the conclusion of the Interstate Transfer Program. We very much oppose that.

In looking ahead, there are tremendous and sweeping changes in the American economy which need to be addressed. There's an unprecedented degree of urbanization in rural areas. The 1980 census showed that for the first time ever more people are moving into rural areas than into the center city which suggests that the highway program needs an entirely new set of goals and objectives. If they can be carefully defined and are understood by highway users, we are sure that highway users will continue to strongly support the highway program.

We would like to play an increasing leadership role with you and with other folks here locally and nationally in doing that.

I understand that AASHTO talked with you this morning, Mr. Chairman, about future needs. We have some comments at the end of our statement about needs in your own State of California. I won't take the time to go over those now, but I think it is important to say that there isn't any chief State highway administrator who feels now that the interstate program is nearing conclusion, that the highway program does not have to be redesigned. The primary system is where most of the action is at the present. Most highway administrators, and those who are using it, are hearing less and less about interstate problems and more and more about problems beyond the interstate. In particular as the primary systems function in industrial parks and high-tech centers, that is really where the challenge for the Federal-aid highway program is in the future. We are hoping that the committee can quickly dispense with the budget and get on with the future highway program. We think that is where most of the work has to be done in the months ahead.

Thank you.

Mr. ANDERSON. Well, thank you, Mr. Clements. We will hold your questions until we hear the others.

Mr. Supica, you are next.

Your full statement will be made a matter of the record.

Mr. SUPICA. Thank you, Mr. Chairman.

I am a highway contractor from Lenexa, KS, and I am here today in my capacity as chairman of the Highway Division of the Associated General Contractors of America. I have asked John Gentille of our national staff to come here to the table this afternoon.

I have a lengthy statement which I request be accepted for the record.

My oral testimony will be a very brief summary of the points that are made in that statement.

Mr. Chairman, I would like to take this opportunity on behalf of the entire AGC's membership to commend the leadership and the members of this subcommittee and the full committee for taking such decisive action on the interstate cost estimate. You have saved the 1985 highway construction season, and we thank you, sir.

Transportation Secretary Dole has indicated in testimony before Congress that the DOT fiscal year 1986 budget contributes to the administration's deficit reduction efforts by, among other things, proposing to establish an obligation ceiling for the Federal Aid Highway Program in 1986 at the 1985 level of $13.25 billion.

Under the 1982 Surface Transportation Assistance Act, the 1986 obligation level has already been established at $14.45 billion. It has been established at that level based on the documented need for improvement of our Nation's highway system. The administration, therefore, is actually proposing a reduction in the Federal Aid Highway Program next year of some $1.2 billion or 8.3 percent. Even more disturbing, the Senate in S. 391 had called for an even greater reduction in program obligations next year. That measure would have established a $12.75 billion obligation ceiling in 1986. That is a $1.7 billion or 11.8 percent reduction from the program level called for in the 1982 act.

Mr. Chairman, the size of Federal budget deficits projected for the foreseeable future are indeed a cause for great concern. Federal deficits will not disappear overnight, and both the Congress and the administration will have to come to terms with this very serious problem. The need for fiscal prudence is both obvious and real.

But, in the rush to address the Federal budget's imbalance, the country cannot afford the Federal policy equivalent with throwing the baby out with the bath water. Reduction in transportation infrastructure spending will undermine the very economic growth that this administration is relying on to produce additional revenues to reduce the deficit.

The Transportation Department's budget proposes to engage in the illusory budgetary practice of using the current balance in the highway trust fund as a deficit-reducing tool. We label this practice as illusory because by not allowing the expenditure of highway trust fund dollars, the administration will not reduce the type of Government spending which is contributing to the deficit. It will merely delay the expenditure of the dedicated user fee revenues which have already been collected and are sitting in the highway trust fund and which, by law, must ultimately be spent for highway improvements.

Spending on our Nation's highway system has never contributed a penny to the deficit. It cannot. User fees are collected from the Nation's highway users, placed in the highway trust fund, and dedicated by law to be spent on the Nation's highway system.

The highway trust fund is, in reality, a very simple and balanced budget account. It must also be understood that some items in the budget are simply more economically significant in the long term than others. An important case in point is investment in the Nation's transportation infrastructure. The long-range impact on the Nation of failing to go forward with vital transportation infrastructure of projects will be disastrous, and not just from a physical plant standpoint, but from an economic standpoint as well.

This conclusion is not sensationalism. It has been validated by economic studies, several of which are discussed in depth in our submitted statement.

The loss to the economy of allowing continued deterioration of our transportation infrastructure, which the Transportation Department's proposed highway program freeze would allow for, has been clearly demonstrated, and those potential losses are measured by lost economic output, fewer jobs, and lower consumer spending for each household.

These negative effects, enormous as they are, are only part of the costs which would be inflicted on the economy. Every infrastructure repair delay adds to the eventual cost of that repair. Judicious pruning of Federal spending should be undertaken where the maximum savings can be achieved while sacrificing the least in terms of the country's future economic potential. Sacrificing proven and much-needed transportation infrastructure investments for illusory short-term deficit reduction gains—as the administration's 1986 budget request proposes to do with regard to the Federal Aid Highway Program—will only serve to saddle future generations with a low-growth economy and create a transportation system burdened with much greater repair and replacement costs. Those future generations will be penalized, as they will at some point be forced to foot the much greater infrastructure repair bill they will inherit as a result of this generation's fiscal imprudence.

Mr. Chairman, I respectfully urge this subcommittee to see to it that the planned-for and much-needed highway infrastructure investments called for by the landmark 1982 Surface Transportation Assistance Act are not eroded by counterproductive reductions in the 1986 Federal Aid Highway Program obligation ceiling.

I believe I can summarize the AGC position, Mr. Chairman. We oppose the administration's proposed reduction in 1986 obligations for two reasons, sir. The highway trust fund does not add to the deficit and should not be used to reduce the deficit.

Second, transportation infrastructure investments are important to the Nation's economic vitality and reducing those investments undermines the economic growth which the administration is counting on to produce the revenues to help reduce the deficit.

I would be glad to respond to any questions later on, sir.

Mr. **Anderson**. Thank you very much, Mr. Supica.

We will now hear from Mr. Eugene Johnson from ARTBA.

Mr. **Johnson**. Thank you, Mr. Chairman.

The membership of ARTBA is some 4,500 members. It consists of contractors, public officials at all levels, materiels suppliers, educators, planning and design professionals, traffic safety industry representatives. So, this membership really represents a cross-section of the transportation construction industry, and a cross section of the transportation engineering profession.

We also would like to mention before addressing the subject at hand that we are deeply appreciative of this committee having reported out a clean ICE bill which, I understand, has now gone to the President for signature.

This money is vitally needed, as you well know, for the development of transportation system for national defense, economic development, and for safety. And it is hardly necessary to remind this committee that the funds in the highway trust fund and the airway trust fund are paid in advance. This is a rather unique situation. The membership of ARTBA is not homogeneous when we speak of party loyalty and political beliefs, but we are together in the conviction that Government cannot continue to operate with these huge budget deficits.

The cash balance in the highway trust fund at the end of last year was over $10 billion and the airway trust fund was over $7 billion, so we do not feel that this $17 billion should be used to offset a deficit when this money has been paid in for a specific purpose. And, as a general rule, we feel that the Government should not spend money that they don't have, and, conversely, that the money paid in for a designated purpose should be spent for those purposes. Speaking specifically of the highway and airport trust funds.

We agree with the statement previously made that the proposed fiscal year level of obligation of $13.25 billion for highways is $1.2 billion less than it should be to match the authorization in the 1982 act.

We see no reason to freeze these funds at a level below their authorization when the fund itself is completely adequate. We feel that the obligation ceiling should be to the full capability of the highway trust fund.

As you know, the Byrd amendment really prevents apportionments being made beyond the capability of the fund, and it therefore prohibits any deficit spending from the highway trust fund.

So, we feel that any obligation below the capability of the fund is less than it should be and, in fact, ARTBA opposes obligational ceilings of anything less than that capability.

As to transit, it is currently authorized at $1.1 million, which is the mass transit account in the highway trust fund, and the collections are somewhat higher than this, so the obligation could be a little bit more than that.

Our policy is that the public transit fund supported by the general fund should be at least equal to the amount from the mass transit account.

Now, I will rush on, Mr. Chairman.

For aviation, the proposed obligation ceiling is about $92 million more than it was last year, and that is well and good, but there has been moneys collected for the airport trust fund that have not been appropriated or used, and we, therefore, feel that Congress might wish to review this situation and use these funds to the maximum extent.

In cooperation with transportation-oriented associations and businesses, a third edition of the American Transportation Advisory Council report estimating future transportation needs as being prepared, and we will look forward, Mr. Chairman, to having an opportunity of presenting the third edition of this report to you when your Committee is ready to consider highway transportation matters beyond 1986.

Thank you very much.

Mr. **Anderson**. Well, thank you.

Now, we will have to recess at this time and go vote. I do have several questions, and I assume some of the other members do, so we will recess now and come back, hopefully, in 10 minutes.

[Short recess.]

Mr. **Anderson**. The subcommittee will come to order, and we have a few questions to ask of our panel.

My first question is to all of you, and I would like for each of you to comment on it.

What are the views of each of you on gasohol exemption?

Mr. JOHNSON. Mr. Chairman, our view is that any motor fuel for vehicles using highways should pay their share of the motor fuel tax, regardless of the type of fuel.

Mr. CLEMENTS. Mr. Chairman, as perhaps you know, we are supported in part by the American Petroleum Institute. Our president this year is Lawrason Thomas, president of Amoco, so we have an interest on both sides of this issue.

But our executive committee voted 2 weeks ago to endorse the position that just supports——

Mr. ANDERSON. In other words, the tax that is on fuels should be on gasohol or any other type of fuel that they may come up with?

Mr. CLEMENTS. Mr. Chairman, we completed a survey not too long ago with bar graphs attached which show the long-term impact as we predicted for gasohol exemptions, which we think could get up as high as $3 billion in the next 10 years.

Mr. SUPICA. Mr. Chairman, we certainly feel that everybody should pay their user fees, and gasohol exceptions certainly provides a shelter there that takes away the funds that are desperately needed in our highway system, and coming from Kansas, we have a local situation there that we are working on to be able to try to get the political support there that we need from our area.

Mr. ANDERSON. Now, my next questions are for the Highway Users Federation, and that doesn't mean that one or the others of you have a burning desire to go ahead in, you can, but this is for the highway users.

Currently, the estimated cash balance in the highway trust fund is $10½ billion. Does the Highway Users Federation have a recommended cash balance level for the highway trust fund?

Mr. CLEMENTS. Yes, sir; I think we think it could be spent down to the level of $2 to $3 billion. And we think highway users ought to have the benefits of those safety and efficiency improvements now which could be gained by spending the difference between the $10 billion and $3 billion.

Mr. ANDERSON. Now, the recent report submitted to the Congress by the National Academy of Sciences in conjuncture with the National Highway Safety Administration on the 55-mile-per-hour national maximum speed limit recommends continuation of the 55-mile-per-hour speed limit and modifications to State compliance requirements. However, the academy balked at suggesting a speed limit for rural segments of the interstate highways. What is the federation's position on the national maximum speed limit?

Mr. CLEMENTS. We strongly support the 55-mile-per-hour limit. We think it should be strongly enforced and would urge the States to pay attention, I think, to the Transportation Research Board study. There were many members from States on that committee, and we feel that the law is only as good as the enforcement provisions.

As far as the rural segments are concerned, Mr. Chairman, I realize that they were a little ambiguous on that. What I think they really said was, in 40 years of driving, you could have a fatality on the urban sections of interstate, but it would take you 100 years of driving to have a fatality on the more rural sections. Therefore, the 55 was, in effect, less effective in saving lives on the rural section than it was on the urban. I personally would hate to see a a two-tiered system of speed limits on the rural and urban sections because I think it would become a political nightmare for those who set the speed limits—the various safety commissioners and others who have to decide where that point begins and ends. I would think it would be very difficult. We strongly support the continuance of it. We think it has demonstrated that it saves lives. We recognize the problems in the West, but they have in fact saved lives.

Mr. ANDERSON. Now, funding for fiscal year 1986, the funding level requested for section 402, that's the Alcohol Traffic Safety Grant Program, is $28.8 million. Could you please elaborate on your recommendation for adjustments to the qualification criteria to encourage additional States to seek incentive grants?

Mr. CLEMENTS. I am not prepared on that, Mr. Chairman, but if I might——

Mr. ANDERSON. Would you do that for the record?

Mr. CLEMENTS. I will submit something for the record.

[The following was received from Mr. Clements:]

The key element inhibiting more states from qualifying for Section 408 funding is that dealing with prompt license suspension and hard license suspension for at least 30 days.

We believe the language in the rule governing these requirements could be modified to permit states which have effective programs to qualify. For example, if a state meets all or most of the criteria in 408 and also can show effectiveness by decreases in alcohol related fatalities they should be eligible for 408 funding regardless of whether they suspend a license within 30, 45, 60 or 90 days. It is the results that count.

Similarly, if a state has a policy of issuing restricted licenses, yet has innovative legislation and programs, and is effective in reducing crashes then they too should be eligible, disregarding the fact that everyone does not lose their license for at least 30 days.

Obviously, there should be monitoring and reporting of program accomplishments by the states, but if they are successful on reducing the bottom-line-fatalities and injuries, then they should be rewarded. I am attaching descriptions of two successful state programs by any description—New York and Minnesota. Neither qualify for 408 funding, due to the lack of either prompt license suspension or a 30 day hard suspension as defined by the rule. I believe their success tells the story and also justifies a revision to the 408 eligibility rule.

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Against
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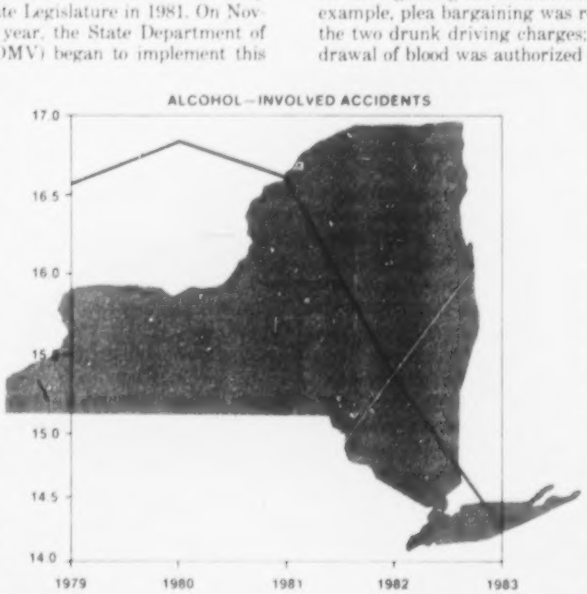
A Nongovernmental
Not for profit
Public Service Organization
Affiliated with the
National Safety Council

Funded by Drunk Drivers

STOP-DWI In New York State An Anti-Drunk Driving Program

The Special Traffic Options Program for Driving While Intoxicated (STOP-DWI) was enacted by the New York State Legislature in 1981. On November 28 of that year, the State Department of Motor Vehicles (DMV) began to implement this program which represents the first comprehensive, financially self-sustaining alcohol and highway safety program in the country.



The STOP-DWI law has two key components:

1. Mandatory fines coupled with license sanctions for both of New York's two drunk driving offenses (Driving While Intoxicated (DWI) and Driving While Ability Impaired (DWAI).
2. County designed STOP-DWI programs funded through mandatory fines following convictions for alcohol related traffic offenses.

STOP-DWI is the centerpiece of the more than 30 drunk driving related statutory reforms enacted by the Legislature between 1980 and 1984. Each of these measures has addressed specific aspects of the laws guiding the countermeasure system. For example, plea bargaining was restricted to one of the two drunk driving charges; and forced withdrawal of blood was authorized in cases involving death or serious injury.

New York's STOP-DWI program works within the framework of the existing local criminal justice system. This was done for two reasons. First, the Legislature recognized that the criminal justice system in New York was already producing a high level of convictions in DWI cases. New York's drunk driving laws and judges, justices and magistrates were elements of a system which allowed few offenders to successfully avoid conviction. Second, the development of a locally based program permitted decision making activities to be focussed at the one level of government which carries the primary responsibility for enforcement, prosecution, adjudication, education and rehabilitation. This was essential to reflect local conditions and meet local needs.

The STOP-DWI law addressed two fundamental shortcomings of the efforts to deter drunk drivers. First, prior to the new fine structure, the average fine imposed on convicted drunk drivers was $11. STOP-DWI provides mandatory fines for everyone convicted of drunk driving, with a mandatory minimum of $250 for first-time non-aggravated cases and up to $5,000 for repeat offenders. These new fines, coupled with mandatory license sanctions and optional jail terms, created a real deterrent to drunk driving in New York State. (See Chart I).

Second, for sanctions to provide effective deterrence it is essential that they be imposed as well as threatened. STOP-DWI addressed this necessity by dedicating fine revenues to support expanded local efforts. To qualify for the revenues, each county and the City of New York (which is comprised of five boroughs) must appoint a STOP-DWI Coordinator. This official is then responsible for developing a program and budget which applies the fine monies to expanded drunk driving countermeasure programs. These may be in the areas of enforcement, prosecution, adjudication, rehabilitation, education and/or public information.

The law further provides that, following local adoption of the program and approval by the State Department of Motor Vehicles, Coordinators shall regularly report program expenditures and results (e.g. arrests, dispositions). This data will permit the State to evaluate individual and collective program effectiveness in an ongoing manner, culminating in a final evaluation report to the Governor and the Legislature April 1, 1985.

STOP-DWI: The Concept

The considerable body of research conducted in the area of alcohol and traffic safety has reached conclusions which generally hold that nothing has been successful over time in reducing the alcohol crash problem. Yet, while these studies point to the fact that *nothing has worked* on a sustained basis, the literature suggests at the same time that nothing has been tried on a sustained basis.

The federal Alcohol and Safety Action Program (ASAP) for example, established a number of State and local programs designed to coordinate all elements of the countermeasure system in building the perception of risk based upon stepped up enforcement. Funding for the programs, however, was limited to three years at most and the efforts were uniformally not sustained following the termination of federal funding.

Likewise, the British Road Safety Act of 1967 had only a temporary impact in reducing traffic fatalities and injuries. Over time, however, crash rates returned to the levels prior to the new law, primarily because high levels of enforcement could not be sustained.

STOP-DWI, on the other hand, provides the sustained revenues to support the system. Because these funds are dedicated exclusively to drunk driving related activities, shifting priorities will not result in the loss of revenues to some other purpose.

The fact that these revenues are provided by drunk drivers, rather than by taxpayers is an attractive aspect of the program. The general public finds a certain degree of poetic justice in the financial underpinnings of STOP-DWI.

Requiring that drunk drivers who create the problem pay for efforts to solve it also has func-

CHART I

	1980 Penalty	1984 Penalty
DRIVING WHILE ABILITY IMPAIRED (Section 1192.1)		
First Offense		
Fine	No minimum $50 maximum	Mandatory $250
License Action	60 day suspension	90 day suspension
Jail	Up to 15 days	Up to 15 days
Second Offense		
Fine	No minimum $100 maximum	$350 minimum $500 maximum
License Action	120 day suspension	Minimum six month revocation
Jail	Up to 45 days	Up to 30 days
Third Offense		
Fine	No minimum $250 maximum	$500 minimum $1500 maximum
License Action	Minimum six month revocation if within three years of previous conviction	Minimum six month revocation if within five years of previous conviction
Jail	Up to 90 days in jail	Up to 90 days in jail
DRIVING WHILE INTOXICATED (Sections 1192.2 & 1192.3)		
First Offense		
Fine	No minimum $500 maximum	$350 minimum $500 maximum
License Action	Minimum six month revocation	Minimum six month revocation
Jail	Up to four years	Up to four years
Second Offense		
Fine	No minimum $5000 maximum	$500 minimum $5000 maximum
License Action	Minimum 6 month revocation	Minimum one year revocation (for prior conviction within ten years)

tional implications for the local countermeasures system. For the first time, alcohol highway safety revenues are directly tied to performance. In effect, it establishes a self-contained, identifiable drunk driving criminal justice system in each participating county. This system provides local government the opportunity to create cost effective solutions to the local drunk driving problem.

STOP-DWI: The Process

By 1983, the second year of STOP-DWI, every county and the City of New York had established individually tailored programs with budgets totalling $10.7 million. Revenues for 1984 are expected to reach approximately $14 million.

In each jurisdiction, a process has been established which brings all elements of the system together on a regular basis to evaluate efforts and results. Each program has the capability of adjusting program elements and expenditure priorities to reflect local circumstances and needs. A highly successful enforcement effort, for example, may create a large backlog of cases awaiting adjudication, which requires additional expenditures for prosecution services. In this case, a County amendment to the program budget, with notification to DMV and that department's approval, would resolve the problem.

The dedicated nature of the funding also encourages attention to long-range planning. With funding available to local governments for the sole purpose of drunk driving countermeasures, agencies are able to operate without fear of shifting State or county priorities and accompanying reductions in appropriations. Also, unlike State aid which requires a matching local contribution, or grants which require the expenditure of revenues within a specified time frame, STOP-DWI revenues which are unspent in one program year are available for local use in the next program year.

Having local, dedicated funding available also helps to maintain the priority given to anti-drunk driving activities. The agencies which comprise the countermeasures system are forced to demonstrate their effectiveness and to rejustify their programs as part of the annual budget process. Since the amount of funds available depends on the productivity of locally determined activities, there is a continual review process inherent to the program which weighs the relative contributions of participating agencies.

STOP-DWI: The Program

STOP-DWI is not a single, uniform system, since it consists of 58 different, locally established alcohol highway safety efforts for 62 counties. Not surprisingly, early program budgets stressed enforcement and prosecution. The aggregate budgets, broken down by program areas are as follows:

CHART II

STOP-DWI BUDGETS

1983

Program	# of Counties Participating	Budgeted Amounts	% of Total
Enforcement	61	$ 4,803,821.29	45.1
Prosecution	52	1,595,095.81	15.0
Adjudication	35	270,636.18	2.5
Probation	19	581,835.09	5.5
Rehabilitation	40	887,472.50	8.3
Public Information	51	581,508.56	5.5
Education	34	372,101.82	3.5
Program Evaluation	25	214,114.06	2.0
Program Administrator	59	1,349,622.67	12.7
TOTAL		10,656,207.98	100.0

Individual programs reflect the diversity of participating local governments. The ability to shape programs locally is beneficial in several respects. First, it is unlikely that a program designed for New York City (pop. 7,149,300) would be equally well suited for the Adirondack Mountain County of Hamilton (pop. 5,034). Finally, the flexibility of STOP-DWI decision making, and its location at the local level, ties decision making to performance responsibility, greatly enhancing accountability.

Enforcement

County programs in STOP-DWI's first two years were primarily devoted to meeting three types of enforcement needs. The first was to provide additional operating funds for selective enforcement units during peak drunk driving hours in high risk areas. The use of selective enforcement during these hours increases public perceptions of the risk of apprehension, and improves compliance with other traffic laws as well. County STOP-DWI budgets for 1983 show $3.2 million in spending for additional enforcement operating activities.

A second enforcement related function funded by many county STOP-DWI programs has been training. Training expenditures help police make better arrests. With more police familiar with proper procedures and skilled in the use of equipment such as breath testers, more convictions will result.

Another Example

This is one in a series of articles describing model programs that are being used to address the drunk driving program. The National Commission is publishing these with the thought that other jurisdictions and agencies might be encouraged to adapt similar effective alcohol countermeasures.

The third enforcement need met with STOP-DWI funds has been the purchase of additional equipment. County STOP-DWI budgets for 1983 show $964,000 allocated for equipment such as breath testers, vehicles, alcosensors and radar.

In addition, a few county budgets showed funds allocated for the operation of roadblocks. This approach has created a controversy between civil libertarians and roadblock advocates. Recent State Police roadblocks have resulted in court suits challenging their constitutionality. Surprisingly, these State Police roadblocks have yielded very few arrests—generally about one half of one percent of the vehicles stopped. This arrest rate is very low, based on previous studies estimating that 10% of drivers on the road on weekend nights are intoxicated.

In the final analysis, however, roadblocks have a potential for creating a powerful deterrent to drunk driving because of their high visibility and publically perceived effectiveness. Long run effectiveness of this strategy is unknown because it has been applied on a short run basis in the past.

Prosecution

County STOP-DWI budgets showed $1.6 million in spending in 1983 to support drunk driving prosecutions. Since counties receive fine revenues for convictions, not arrests, the activities of prosecutors are crucial to the operation of the system. These expenditures will help offset the additional burden on district attorneys created by the larger number of drunk driving arrests made by police in recent years.

Many counties have used STOP-DWI funds to provide an additional assistant district attorney to handle the drunk driving caseload, while others have used these funds to develop better case management systems.

Adjudication

County governments made more than $270,000 available for adjudication through STOP-DWI programs in 1983. Expenditures provided funding for transcript fees, stenographic aid, training activities, and the improvement of judicial case management systems.

Probation

Although relatively few counties support DWI related probation activities with STOP-DWI funds in the program's first two years, several provided funding for additional probation officers to handle the increase in DWI cases. These officers, working closely with rehabilitation agencies, can be of significant assistance in ensuring that offenders comply with the conditions of probation imposed by the courts. Since in some cases judges mandate rehabilitation as a part of sentencing, this activity can help ensure that drunk drivers receive needed treatment after conviction. Total County STOP-DWI spending for this purpose in 1983 was $581,835.

Rehabilitation

Many counties provide additional support for alcohol rehabilitation activities through their STOP-DWI programs. STOP-DWI programs provided about $900,000 for treatment programs in 1983.

With the increased enforcement of New York's drunk driving laws treatment agencies face heavier caseloads than they have in the past. Additional STOP-DWI funded support for screening and treatment personnel can assist these agencies in treating drunk drivers in need of rehabilitation.

The $900,000 in new funds provided by local STOP-DWI programs for drunk drivers in 1983 is 40% of the $2,000,000 local share of the cost of providing outpatient treatment services for these offenders. County STOP-DWI programs have used fine revenues collected from convicted drunk drivers to fund substantially increased outpatient treatment programs to meet the needs of the newly identified population in need of rehabilitation. STOP-DWI has assisted local alcoholism agencies by increasing the number of problem drinkers and alcoholics identified for treatment, while also providing new funds to assist those agencies in serving that population.

Public Information

Since an important element of the STOP-DWI approach has been the creation of an increased public perception of the need for responsible drinking/driving behavior and of the increased risk of apprehension and punishment resulting from the new laws, public information activities are a component of virtually all county STOP-DWI programs.

Most counties have instituted media campaigns and speakers bureaus, and developed working relationships with interested community groups. Total spending for this purpose in 1983 was $581,500.

Education

Education is another STOP-DWI funded activity in most counties. These efforts are specifically oriented to reaching students in area schools. Because school-based educational efforts reach young people at the time basic attitudes about drinking and driving are formed, they have a potential for significantly reducing drunk driving by the population which has faced the highest risk of vehicular crash involvement. Counties spent $372,000 on education activities in 1983.

Program Administration and Evaluation

A key person in the development of comprehensive county STOP-DWI plans is the STOP-DWI Coordinator. The Coordinator must develop a proposed plan, prepare a budget, and encourage participation by all those organizations and groups at the local level which could assist in the effort to combat drunk driving.

At the same time, the STOP-DWI Coordinator is responsible for the collection of statistics and the analysis of the performance of local agencies in this effort. In fact, the Coordinator's office is an accountability mechanism, which works by requiring police, prosecutors and judges, for example, to report on their activities — such as arrests, convictions and fines collected. These program evaluation activities should serve as a significant feedback mechanism for the development of county STOP-DWI plans in future years. Thus, STOP-DWI programs budgeted $1,560,000 for administration and evaluation in 1983.

STOP-DWI: Preliminary Results

In exchange for local autonomy and flexibility, New York's STOP-DWI law requires Coordinators to report both their expenditures and program output measures. Several interim reports on STOP-DWI's impact have already been published by DMV, and its consultant the Institute for Traffic Safety Management and Research. The initial findings are encouraging.

Chart III illustrates the reduction in fatal crashes in 1982 and 1983, compared with 1981, the year prior to STOP-DWI. The graph shows the number of crashes for each year by hour of occurrence. While there was a nationwide reduction in highway deaths during 1982 and 1983, the sharp reduction in New York's nighttime fatal crashes (the most widely used surrogate for alcohol involvement) is not mirrored by national figures. A change in drinking/driving patterns in New York State is also strongly suggested by Chart IV which breaks down late night fatal crashes (10 p.m.-5 a.m.) by

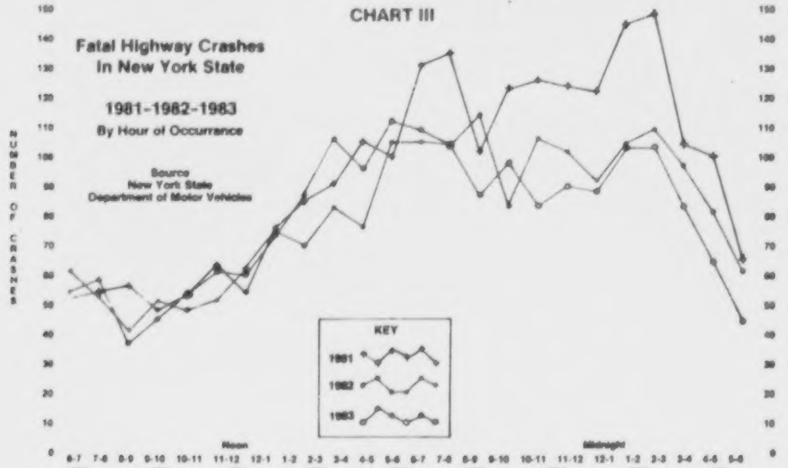


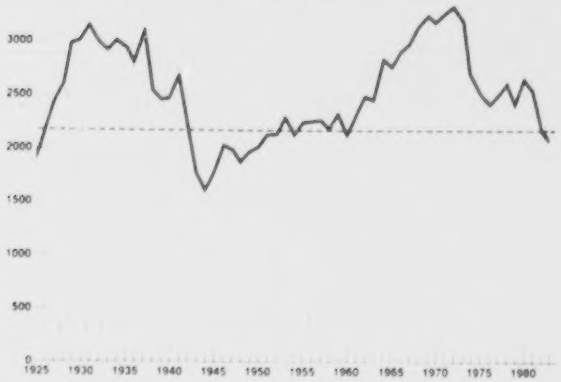
CHART IV

FATAL ACCIDENTS

	1979-1981 Average	1982	% Decrease To Average	1983	% Decrease To Average
All Accidents	2294	1947	15	1918	16
6 a.m.-6 p.m.	1423	1158	19	1056	26
10 p.m.-5 a.m.	894	691	23	614	31

CHART V

Trafic Deaths in New York State -- 1925-1928/83



day of occurrence. Here again, the most substantial reduction has occurred in the late night hours of those days in which drunk driving is most likely to be a factor in a fatal crash.

Finally, Chart V illustrates traffic deaths in New York State from 1925 to 1983. Each of the reductions in deaths of the magnitude of the past two years was accompanied by a major socio-political event—World War II, the Arab oil embargo and the implementation of 55 mph speed limits. Preliminary evaluations have found that the reduction in deaths in 1982 and 1983 in New York State, was best explained by changed behavior with respect to drunk driving.

These statistics show the potential of abuser funded local drunk driving programs. Evaluations of long term program effectiveness will address not only its impact on traffic crashes, but also its effect on the administration of the local criminal justice system. Data will be available measuring arrest output, processing time, arrest to disposition timeframe, conviction ratios, rehabilitation effectiveness and similar programmatic concerns.

By attaching a dedicated funding mechanism to a criminal justice system which actually imposes threatened punishments, New York's STOP-DWI program has established the framework for the development of a long term local focus on the drunk driving problem. To date, this approach has yielded significant reductions in vehicular fatalities and injuries. At the same time the program's unique funding mechanism and structure promises continued success in the effort to make the State's highways safer.

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Success in Minnesota

Among State's Achievements An Administrative Per Se Law

Minnesota traffic deaths in 1982 and 1983 were the lowest in thirty years; 581 people died in 1982. The 1982 death rate per 100 million vehicle miles was 1.98 compared with a rate of 4.9 in 1952 when 534 people died. Data for 1983 show an even lower toll last year, with 558 deaths and a mileage rate of 1.83. Minnesota traffic deaths have gone down every year since 1978 when 980 people died; the mileage rate that year was 3.4.

If traffic deaths had stayed at the 1978 level, 1,254 more lives would have been lost.

Alcohol-related traffic deaths were down 45% in the decade 1973-1983, (573 vs. 318), meaning 255 fewer people were killed in 1983 than in 1973. Injury and property damage accidents related to alcohol also declined 10% and 22% respectively.

In the past five years, drunken driving arrests have increased dramatically, In 1979 there were 18,092 DWI arrests. By 1983 these had increased 78% to 32,155. One-fourth of *all* arrests in Minnesota are for drunken driving! Prosecutors, courts, police and the entire criminal justice system give a big share of time and effort to dealing with this dangerous crime.

Driver license revocations for alcohol-related offenses have increased every year since 1976 when Minnesota's two-track system went into effect and 14,251 licenses were revoked. In 1983 there were 34,903 revocations for alcohol-related offenses.

The two-track Minnesota system, now adopted by 19 other states, provides for quick, administrative revocation of the license when a driver either refuses to take a test or fails a test with an alcohol concentration of .10 or more, regardless what happens on the criminal charge of drunken driving, where driver may be fined or jailed.

Popular demand for effective action to get the drinking driver off the road, from citizen groups of victims and others such as Mothers Against Drunk Driving (MADD), from Minnesota officials and legislators, supported by unprecedented attention from the news media, has resulted in Minnesota's already strong control programs being even further stepped up. The final, consolidated DWI bill which emerged from the 1982 Legislature, was thoroughly debated in each of its elements and passed both houses with no dissenting votes. Similar support in the 1983-1984 sessions resulted in further strengthening of drunken driving laws.

A chronology of significant drunken driving laws enacted by the Minnesota Legislature, beginning in 1967 is listed below:

CHRONOLOGY

1967 Prima facie reduced from 0.15 to 0.10.

1971 Preliminary screening breath test (PBT) authorized. Illegal per se at 0.10.
Invoke implied consent without necessarily having person under arrest.

1976 Presentence alcohol problem assessment required. "Aggravated DWI" gross misdemeanor. (DWI while license under revocation from previous alcohol-related offense.) Authorized administrative revocation of driver license for *either* refusing to take test or for testing 0.10 or more.

1978 Police officer acts as agent of Commissioner, giving notice of revocation and picking up plastic license. "Alcohol concentration" term (rather than "blood alcohol concentration") adopted and defined in statute by ratios of blood, breath and urine.

1980 Admit test results without in-person testimony of chemist.

1982 Police officer choice of tests.
Second and subsequent offenses, gross midemeanor. Administrative revocation effective in 7 days. Not stayed pending review.

1983 Evidence of refusal admissable in trial.
Felony "criminal vehicular operation" if ordinary negligence, DWI resulting in death or injury. Felony hit-run if death or injury. (Not necessarily DWI.)

1984 Eliminated "right" to refuse under implied consent warning. One year revocation for refusing.

The united, effective effort of Minnesota citizens in demanding control of the drunk driver has clearly resulted in increased deterrence, increased driver license suspensions, and fewer highway deaths. The following chart reflects Minnesota's experience in Highway deaths and alcohol driver license revocations for the period 1967-1983.

In providing comparison of traffic deaths and death rates, and alcohol-related license revocation rates between 1967 and 1982 (Figure 1), Minnesota officials are well aware that correlation does not prove causation. However, many believe that Minnesota's efficient system of administrative revocation of driver licenses, combined with other elements of a *general deterrence* program, is an effective DWI control measure, and as a result had more to do with reduction of traffic deaths than the similarly correlated condition of the nation's or the state's economy, as some have suggested.

The Minnesota two-track system, or its "administrative per se license revocation law" works fairly and efficiently. It in many ways has served as a model for other states which have enacted or are considering enactment of similar legislation. The following simplified examples are in-

Figure 1
Minnesota
Traffic Deaths and Alcohol-Related
Driver License Revocations
1967—1983

Year	100 Million vehicle miles traveled	Traffic deaths	Rate	Alcohol related drivers lic. revocations	Rate
1967	187	956	5.17	5,977	32
1968	199	1,060	5.33	7,431	37
1969	208	988	4.75	8,471	41
1970	224	987	4.41	8,634	39
1971	234	1,024	4.38	9,678	41
1972	249	1,031	4.14	11,303	45
1973	252	1,024	4.02	13,047	52
1974	246	852	3.47	13,325	54
1975	256	777	3.03	13,731	54
1976	270	809	3.00	14,251	53
1977	281	856	3.06	17,741	63
1978	288	980	3.40	24,357	85
1979	290	881	3.04	24,966	86
1980	285	863	3.03	30,481	107
1981	286	763	2.67	32,043	112
1982	294	581	1.98	33,024	112
1983	306	558	1.83	34,903	114

tended to show how administrative driver license revocation works in Minnesota.

Example A.

A police officer sees a car being driven in such a way that there is "reason to believe" or "articulable suspicion" of drunk driving. The officer stops the car, asks for the driver's license, questions the driver and decides, on the basis of the driving and the way the driver looks, acts and smells, that there are enough grounds for arrest and testing. The officer may also have been guided in the decision by the results of a preliminary breath test or the driver's performance of conventional roadside coordination or balance tests. The officer decides to require a breath test and takes the driver to the police station where the evidentiary test device is located. The test choice is the officer's; the one alternative is discussed in Example B.

The officer reads the "Implied Consent Advisory," which, after advising of rights and consequences of refusing or failing, ends by asking "Will you give the test?" The accused person says "Sure!" (Remember that these are simplified, abbreviated examples. We have sacrificed total realism.) The test results shows, for example, an alcohol concentration of 0.18, the average of tests resulting in 0.10 or more.

The *officer keeps the plastic license* this is called "eating the plastic") and sends it to the Department of Public Safety, along with a copy of the "Notice and Order of Revocation" which is given to the driver (the officer does not actually eat the plastic license; it is sent to the Commissioner of Public Safety who eats it.)

The notice given the driver includes a temporary license good for only seven days. This ends the police officer's role in the administrative revocation track, unless the officer's testimony is required in a judicial review, which will be discussed later. It is worth noting here, however, that after the 1982 amendment, the license revocation is *not* stayed pending either an administrative or judicial review, and thus there is little incentive for purely frivolous or dilatory review demands. Under the circumstances in this example, after the test the driver is booked and held and the case proceeds on the criminal track as well.

Example B.

If the driver described in the above example had simply refused to take any test, then the license is revoked for the refusal just as it is in most other states with an implied consent law. However, it should be noted that under Minnesota law the police officer gives notice of revocation, takes the plastic, and issues a seven-day temporary paper license which is not renewable, and the revocation is not stayed pending review.

To report the action taken in circumstances similar to those in the above examples, the police officer uses the "Implied Consent Law Peace Officer's Certificate" which is printed on the back of the "Implied Consent Advisory."

The driver who receives "Notice and Order of Revocation", including the seven-day temporary license, will find on the back of that form additional information describing the right to administrative or judicial reviews, consequences of a guilty plea on the criminal charge and information about the reinstatement of the license.

The above procedure reflects the 1982 Legislature's desire to strengthen the Minnesota administrative revocation law. It was concerned with seeing that drivers who refused or failed a chemical test were quickly ruled off the road and were not able to delay that driver license revocation through a series of appeal or review procedures.

In recommending the 1982 amendments, Minnesota Attorney General Warren Spannaus advised the Legislature that if there were provisions for prompt review which would afford due process, the revocation itself need not be stayed pending such a review. This opinion was based on a number of appellate court decisions, including the U.S. Supreme Court decision in *Mackey vs. Montrym*, which relied on balancing the public interest in promptly removing unsafe drivers from the road against the private interest in retaining the driving privilege. The availability of prompt post-revocation review is, however, an important part of assuring that administrative

Another Example

This is one in a series of articles describing model programs that are being used to address the drunk driving program. The National Commission is publishing these with the thought that other jurisdictions and agencies might be encouraged to adapt similar effective alcohol countermeasures.

To maintain the protection of the private interest in the driving privilege, Minnesota's 1982 amendment provided two kinds of review and made either or both available.

The Minnesota Supreme Court in unanimously upholding the 1982 law (Heddan vs. Dirkswager), described the review process as follows:

> During the 1982 legislative session Minn. Stat. §169.123 was amended in order to reduce the time lapse between an implied consent violation and the imposition of license revocation. The old law delayed all revocations for 30 days from the notice of revocation. The new law provides just 7 days. The old law enabled additional delay by a request for judicial review. The new amendments provide that "the filing of the petition shall not stay the revocation or denial."
>
> While removing the opportunity for lengthy delay, the 1982 amendments simultaneously created a more efficient system for obtaining review of the revocation order. The Amendments provided for two distinct avenues of review: administrative review by the Department of Public Safety, and judicial review in a county or municipal court.
>
> The administrative review mechanism provides as follows:
>
>> *Administrative review.* At any time during a period of revocation imposed under this section a person may request in writing a review of the order of revocation by the commissioner of public safety. Upon receiving a request the commissioner or his designee shall review the order, the evidence upon which the order was based, and any other material information brought to the attention of the commissioner, and determine whether sufficient cause exists to sustain the order. Within 15 days of receiving the request the commissioner shall report in writing the results of his review. The review provided in this subdivision is not subject to the contested case provisions of the administrative procedure act in sections 14.01 to 14.70.
>>
>> The availability of administrative review for an order of revocation shall have no effect upon the availability of judicial review under this section. Minn. Stat. §169.123, subd. 5b. (1982).
>
> This provision contemplates an informal review procedure which is designed to remedy obvious errors. The procedure is speedy, promising a result within 15 days, and it accords a certain measure of due process to subjects of revocation orders.
>
> Drivers requesting administrative review are asked to fill out an administrative review form setting forth facts pertaining to why the revocation is not valid. Drivers are then asked to sign the form, have it notarized, and submit it to the commissioner. Each numbered paragraph of the form sets forth an element of the implied consent violation and solicits the driver's version of the facts pertaining to that element.
>
> Administrative reviews are conducted by civil service employees known as "driver safety analysts." All employees in this classification have past experience with the laws and rules governing license revocation. They have also undergone training in administrative review and in the legal principles in this area.
>
> In addition to the written request for review, drivers may appear in person for administrative review on any business day in St. Paul or at regularly scheduled times in locations throughout the state. Counsel may appear with the driver, although there are no provisions for subpoeaning or cross-examining witnesses.
>
> In conducting an administrative review, the review officer considers information provided by the driver and all relevant reports provided by law enforcement agencies. The review officer reports his findings to the driver within *15 days* of request for review. The report includes findings on each element of the offense. Within 30 days following receipt of the notice and order of revocation a person may petition the court for judicial review. This may be done while pursuing administrative review.
>
> The judicial review provision, as amended in 1982, requires that a hearing be conducted "at the earliest practicable date," and in no event later than 60 days after the filing of a petition for judicial review. Judicial district administrators are directed to implement this requirement through efficient scheduling and the transfer of cases within their districts to expedite hearings. Court administrators in the 10 Minnesota judicial districts have established a scheduling system for implied consent cases whereby judicial review will normally be had from with 10 to 40 days following the filing of a petition." (end of quotation from Heddan vs. Direkswager.)

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Mr. **Anderson**. Now, the National Highway Safety Administration has recently amended the occupant crash protection rule to require the rescission of the automatic occupant protection requirement. If two-thirds of the population of the United States are residents of the State that have passed mandatory seatbelt laws meeting the requirement set forth in the regulation. However, if two-thirds of the population are not covered by mandatory seatbelt laws that take effect by September 1, 1989, the manufacturers will be required to install automatic protection systems in all automobiles manufactured after September 1, 1989.

Does the federation support the Secretary's rule?

Mr. **Clements**. Let me answer this way, Mr. Chairman: We don't think voluntary compliance really has worked and it hasn't been demonstrated to work, so we strongly support mandatory seatbelt laws.

I guess our feeling is that there are 10 years worth of current production on the road at the present time that have seatbelts installed and basically it would take probably 10 years to modernize the fleet with other kinds of passive-restraint systems such as airbags or the like.

Estimates that most competent safety people have made estimate that in that period of 10 years 100,000 people could be killed literally sitting on their seatbelts.

We feel the only way that can be effectively done is mandatory seatbelt laws. We also feel that we have strong user conferences in all the States and we think local jurisdictions can be encouraged to do it on their own. That should happen. If it doesn't, then other methods will have to be tried.

I'd like to read something that just came across my desk yesterday, which I think you would be interested in.

Our regional director in New York, the first State to pass mandatory seat laws sent me a clip out of the Washington Post with headlines, "Seatbelt law cuts State road deaths, 59-year low."

As you know, Mr. Chairman, the New York seatbelt law went into effect in January. The article reports that there were 53 deaths in January—down from 86 in January of a year ago, a 38-percent reduction, and a 43-percent decrease in the average number for that month from the last 5 years. The Governor is quoted as saying, Governor Cuomo that is, "That if the trend continues, 300 to 400 people can be expected to be saved annually in New York." Now, this admittedly is only a 1-month record, but there seems to be every indication that when people know that there is a law in place—even though it is loosely enforced—people tend to obey it.

Mr. **Anderson**. Well, has your organization done any studies that would indicate increased voluntary usage of seatbelts as a result of public education campaigns?

Mr. **Clements**. No; I don't think we could say that there is. We think that there has been adequate evidence of all kinds of educational programs for voluntary. As I understand your question, Mr. Chairman, it was for voluntary. And we don't think that really works. We have many years of voluntary education programs and we have come to the conclusion that mandatory is the only way to go.

Mr. **Anderson**. Have you any statistics indicating whether there has been a reduction in child fatalities and injuries as a result of the Child Restraint Program?

Mr. **Clements**. I don't have those, Mr. Chairman, but we can get those for you and I would like to submit them to you.

Mr. **Anderson**. Would you do that for the record, we would like that.

[The following was received from Mr. Clements:]

We are aware of data from several States regarding increased usage of child restraints, but only have data from one regarding impact on death and injury.

Michigan reports that from January 1978 to December 1983 child restraint usage for the four year olds and under went from 12% to 51%, a 289% increase. During this same period of time fatalities for the age group (4 and under) decreased by 25% and there were 522 fewer injuries.

North Carolina reports that infant restraint usage (0-1 year) increased from 25% in July 1982 to 70% in July 1984, and that child restraint usage (2-3 years) increased from 11% to 47% in the same time frame. Fatality and injury reduction data are not available at this time.

Mr. **Anderson**. My next questions are for ARTBA.

In the Department of Transportation's budget request for budget authority are significantly based on the availability of user fees to finance transportation programs. Should the Federal role for transportation programs be based exclusively on the availability of user fees?

Mr. **Johnson**. I cannot say it should be exclusively, Mr. Chairman, but we do believe in the principle of user fees to finance transportation programs.

As you are well aware, that is presently the situation with our highway trust fund at the Federal level with the airport and airway trust fund. There is also a mass transit account in the highway trust fund, which is not exactly a user fee.

So, I would say that basically user fees should be used, but that there will, I think, have to be some exceptions. ARTBA does not have a specific policy statement on that issue although our general policy has always been in favor of user fees.

Mr. **Anderson**. Has ARTBA come to any conclusion on an obligational schedule that would provide a drawdown on the cash balance in the highway trust fund and still provide an adequate cash reserve for the unfunded authorizations?

Mr. **Johnson**. No such schedule has been worked up. It has been our position that the full capability of the highway trust fund should be used. That would allow considerable drawdown and the bottom limit would have to only be such that no funds would be incumbered beyond the estimated capability of the trust fund within the period of its life. We feel that considerably more money than is presently being used in the Highway Program could be used and still maintain the integrity of the trust fund in that it would not involve any deficit financing.

Mr. **Anderson**. When we passed the Surface Transportation Assistance Act, we made commitments and promises that 1 cent of the 5-cent increase would go for transit. At that time, we didn't know how much that would raise, and the estimate was $1.1 billion.

We are now told by the Congressional Budget Office that it will, that 1 cent, is raising $1.5 billion.

Now, during the 98th Congress, the Congressional Budget Office presented testimony to the committee that mass transit, the mass transit account of the highway trust fund, could support authorizations of approximately $1.5 billion. My question is would ARTBA support higher authorization levels from the mass transit account in line with the CBO estimates?

Mr. JOHNSON. Yes, sir, we would. We feel that the full amount of the revenue from that 1 cent, which is designated for mass transit should and could be used for that purpose.

Mr. ANDERSON. I have one more ARTBA question: Mr. Johnson, in the ATAC II report coordinated by ARTBA, the authorization levels that were projected as needed for fiscal year 1986 totaled $19 billion. Of course, the Surface Transportation Assistance Act, as progressive as it was, didn't reach that level for the coming year. A freeze in the obligational authority of $13.25 billion will only allow States to spend about 70 percent of that amount. Could you outline for the committee impact that this delay in needed infrastructure investment will have on the Nation's highway system?

Mr. JOHNSON. I think, Mr. Chairman, that in any infrastructure facility, and speaking specifically of highways, when the full amount needed is not expended, then the facility will deteriorate. As we see it, our estimate is correct and it was the best that could be done at the time. There were knowledgeable people involved in it, so there will either have to be some additional revenue to meet the needs or we are going to suffer that deterioration.

As I mentioned at the end of my testimony, we are starting on a new 1985 ATAC III estimate. When that work is completed, we will have more information and better estimates of future revenues and requirements and we hope it will be helpful to your committee in deciding how to handle this matter in the future.

Mr. ANDERSON. Thank you.

My last question is for General Contractors. Now, as you know we have passed our ICE and it contains no obligation ceiling, and I don't believe between now and the beginning of fiscal year 1986 this subcommittee will act to lower the ceiling. So, if the ceiling is reduced, it will, in a manner contrary to the rules of this House, come from the Appropriations Committee. My question is: Are you working to educate them, being the Appropriations Committee, as to the needs and workings of the Highway Program so that they might not act to reduce badly needed obligational authority?

Mr. SUPICA. Yes, Mr. Chairman, it is my understanding that we have prepared and are preparing a statement to the appropriate committee.

Mr. ANDERSON. So you will be working with both Appropriations and the Senate?

Mr. SUPICA. I certainly will, sir.

Mr. ANDERSON. Now, during the 98th Congress, the committee received testimony from the Congressional Budget Office on the financial viability of the highway trust fund, and the CBO projects a rapid decline in the cash balance starting in 1986. Part of the argument made for lower obligational ceilings if that they would offset a rapidly declining balance that threatens the solvency of the trust fund.

How would you respond to this argument.

Mr. SUPICA. Additional funds will have to be acquired, sir, whether it's—as we discussed a little bit earlier, removal of the gasohol exemption would generate additional funds, and, of course, if we have to give consideration to an indexing method as some States are doing at this time in order to provide revenues for a constant funding program, that should be considered.

Mr. ANDERSON. Lowering the obligation ceiling is not the answer?

Mr. SUPICA. I certainly agree with you. If time would permit, sir, I am the only contractor in the room, so let me express to you how this Federal financing situation, the ups and downs, the peaks and valleys has affected me as a contractor.

AGC of America has approximately 85 percent of its contractors under the category of $17 million a year, which the Small Business Administration says is small business. My company certainly falls in that position. I am not the size of a George Griffith in Long Beach or Doug Pitcock in Houston, and yet I believe my company represents the average size of the typical prime general highway contractor throughout the Nation. And, of course, also, that size company has built the vast transportation system of America. But I'll give you an example for my operation and you will see the size I fall into falls under the category of small business.

In that small business, I am the primary owner, I have over $10 million invested in equipment today.

Back in 1980, prior to the 1982 act, I had $16.1 million worth of work that I performed during 1980. In 1981, with the recession, I dropped to $4.1 million. In 1982, prior to the Surface Transportation Assistance Act, I had $1.3 million worth of work in place.

Now, I think we can all understand what happens to that type of investment when your volume of work continually deteriorates, as it did prior to the salvation of the 1982 act.

In 1983, with the help of the act, we started getting funds back into Kansas and Missouri, where I primarily work. I built my volume back up to $7.8 million. In 1984, the season just behind us, I put in place $12 million. Therefore, I am building back up to a point where I was 5 years ago, still sitting with a $10 million investment trying to put in place the volume of work that the marketplace will permit.

Now, we certainly cannot afford any less funding on highway programs, or we are going to be losing our highway contractors. And I submit to you, sir, that, if we do not have consistent funding in the future, many of our highway contractors are not going to survive.

I can personally say that I do not know a highway contractor throughout the Nation—and I'm acquainted with a great number of them—who did not lose actual cash money on work they put in place in 1982 and 1983 because of the competitiveness of the industry.

I have heard people comment. Can the industry handle any additional highway funding? I think everybody in this room recognizes we need more than we have today.

My only answer to you is my own example. I am still trying to get back to the volume I was back in 1980. My answer to that is: Absolutely yes.

Your highway contractors in America today could increase their volume at least 50 percent with the existing plant and organizations they have idle at this time. My organization actually went from a high of approximately 200 employees down to a low of 35 when I hit the bottom of the 1982 recession.

Consider the loss of jobs, of the taxes by those people, of the workmen's compensation programs being destroyed in various States. I think so much of the emphasis comes right back to the lack of construction.

AGC has prepared two documents that I would like to enter into the record, sir, on our philosophy on why construction investment spending is the answer to the economic growth of America.

We have a study by Dr. Brown of Georgetown University and also a study on American's Infrastructure—the Effects of Construction Spending.

[Documents referred to follow:]

Construction/Investment Spending An Engine of Economic Growth

Underinvestment and Economic Growth in the U.S.

By Douglas M. Brown, Ph.D.
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Douglas M. Brown, Ph.D., is chairman of the Economics Department at Georgetown University, where he teaches undergraduate and graduate courses in urban, micro theory, macro theory, medical, public and regional economics. His fields of concentration include applied econometrics, health economics and economic theory. He holds degrees from the University of West Virginia, the University of Ohio and the University of Wittenberg. He published his first book, *Simulating Regional Economic Development*, in 1970, and *Introduction to Urban Economics* in 1974. Honors include participation in the National Science Foundation Summer Institute in Urban Economics at Stanford University and selection as Visiting Scholar at the National Bureau of Economic Research at Palo Alto, Calif.

Dr. Brown has worked as senior research consultant for Bechtel Corp., and for Charles River Associates of Cambridge, Mass. His consulting and contract experience includes experiences with a range of government agencies, among them: the U.S. Department of Agriculture; Health, Education and Welfare; Housing and Urban Development; and the National Park Service. He has also worked for the Urban Institute, the Urban Transportation Center and the Federal Judicial Center.

In addition to his two books, he has published numerous articles, book reviews and research papers. Articles include "Analysis of Physicians' Input Decisions" for *Issues in Physician Reimbursement*, "The Location Decision of the Firm: An Overview of Theory and Evidence" for the *Papers of the Regional Science Association*, "Input-Output As A Simple Econometric Model" for *Review of Economics and Statistics*, "Comment on Pareto Optimal Location" also for the *Papers of the Regional Science Association*, and "The Supply of Physician Services" for *Economic Inquiry*.

Dr. Brown's research papers include: "The Economic Structure of West Virginia" for the Office of Research and Development (ORD) of the Appalachian Center at West Virginia University; "Capital Expenditures and Economic Growth in West Virginia" for ORD; "The Social and Economic Impact of the Substitution of Low Sulfur Coal for High Sulfur Coal" for ORD; "The Demand for Higher Education in the Parkersburg, West Virginia, Region" for ORD; and "An Evaluation of the Mononaglia-Preston County Out-of-School Neighborhood Youth Corps Program" for ORD. His book reviews have appeared in the *Atlantic Economic Journal*, *Growth and Change*, and the *Journal of Regional Science*.

Construction/Investment Spending An Engine of Economic Growth

Underinvestment and Economic Growth in the U.S.

By Douglas M. Brown, Ph.D.

During the 1970s, a quiet revolution occurred in the aggregate U.S. economy. For the first time in our modern economic history, we observed that the amount of capital per worker (or hour worked) declined. Our modern economic system had always generated enough growth and thus savings to allow steady increases in the amount of capital per worker. But during the 1970s, the labor force expanded at an unprecedented rate in the annals of modern (post 1929) economic data. At the same time, net investment increases in capital (plant and equipment) slowed markedly, which meant that between 1975 and 1980, capital per employee actually declined!

The statistical picture of this revolution is shown in Table 1. The aggregate net stock of capital in the U.S. grew on average at 5.12 percent per year from 1960 to 1970. But over the next decade, growth in capital declined to an average annual rate of 3.01 percent. On the other hand, the labor force grew at 1.88 percent per year during 1960 to 1970, but increased this growth to 2.92 percent per year over the decade of the 1970s. With the increase in the growth rate of the labor force came a similar increase in employment growth. But as the last two columns of Table 1 show, the annual average growth between 1970 and 1980 of the net capital stock per hour worked or worker was only a small fraction of the growth rate between 1960 and 1970.

Where does construction enter into this picture? Construction is essentially synonymous with investment, which of course increases the stock of capital. The measure of investment often referred to by economists is gross private domestic investment, which is comprised of expenditures on (1) structures, (2) durable equipment, (3) residential housing, and (4) changes in inventories. Certainly construction is integrably involved in (1) and (3), and is also related to (2). What we observe over the past two decades is that the share of overall investment attributed to structures and residential housing has declined. In Table 2 we offer evidence on the shares of real gross private domestic investment. For example, in 1960 there was $104.7 billion (1972 dollars) of gross private domestic investment spending, and $29.5 of the 104.7 billion was spent on structures (buildings). Thus 29.5 ÷ 104.7 = .28 is the share structures make up of gross private domestic investment spending. We note in Table 2 that equipment's share of investment has increased markedly from 1960-1982, whereas residential construction's share has nearly been halved. The share for structures has remained more or less constant. In summary, the relative decline in the growth of capital in the past few decades has meant a decline in the growth of construction.

Table 1

Capital Stock, Employment and Labor Force Growth

1960 - 1980

	Net Capital Stock (Billions) of 1972 Dollars	Hour of Work (Billions)	Labor Force (Millions)	Employment (Millions)	Net Capital Stock per Hour of Work 1972 Dollars	Net Capital Stock per Worker
1960	986.8	133.2	69628	65788	7.41	15.0
1965	1203.6	144.0	74455	71088	8.36	16.9
1970	1491.9	153.7	82715	78627	9.71	19.0
1975	1720.5	164.1	92613	84783	10.49	20.3
1980	1940.9	191.2	106900	99303	10.15	19.5
Annual Growth Rate						
1960-70	5.12%	1.54%	1.88%	1.95%	3.1%	2.7%
Annual Growth Rate						
1970-80	3.01%	2.43%	2.92%	2.63%	0.5%	0.3%

Sources: Capital Stock represent net stock of plant and equipment held by the nonresidential private, plus federal, state and local governments and enterprises. The source is U.S. Department of Commerce, *Fixed Reproducible Tangible Wealth in the U.S., 1925-79*. March, 1982; the year 1980 was extrapolated.

Hours of work were derived by using estimates of hours worked per week from the household survey of the Bureau of Labor Statistics. These estimates were multiplied by 50 weeks/year, and the product was then multiplied by the level of employment. The hours per week estimates are from January issues of *Employment and Earnings*, Bureau of Labor Statistics (BLS).

Employment and labor force data are from the BLS.

Table 2

Shares* of Real Gross Private Domestic Investment in the U.S., 1960 - 1982

	Residential Investment	Structures	Durable Equipment
1960	.33	.28	.36
1965	.29	.27	.37
1970	.26	.28	.44
1975	.27	.25	.52
1980	.23	.23	.56
1982	.19	.27	.58

Source: Computed from U.S. Dept. of Commerce, *Business Statistics* 1982, Appendix 2, pp. 189-190

* Shares may not sum to unity because we have omitted net changes in inventories, which may be positive or negative.

The implications of reduced growth rates in capital per worker are very clear. Barring drastic, unforseen increases in technological change, we will not grow as fast. Indeed, Table 3 offers information on labor productivity and income per capita which corroborate this prediction. Real GNP per hour worked increased during the 1970s at one-third of the rate enjoyed in the 1960s. Income per capita growth rates also declined in the 1970s.

There have been many studies done over the past five years as to why productivity has declined in the United States.[1] In addition to underinvestment, which we have documented above, the following points have been used to explain the productivity slowdown:

1) Research and development activity as a share of GNP has declined; thus, technological change may not have kept pace with the past.
2) The composition of output has changed from goods to services. Since workers are more productive when producing tangible goods, it follows that overall productivity growth will decline as we allocate more workers to the service sector.
3) The composition of the labor force has changed with the influx of minority groups, women and teenagers. These groups are relatively less experienced at market work, so this problem should be transitory.
4) The drastic energy price increases from 1974-79 had a significant indirect effect on capital investment. Capital and energy are complementary aspects in the production of goods and services. As energy prices increased, less energy and thus less capital were used in production.

In this article, we explain the process of economic growth. We focus on both the short and long run implications of underinvestment in the U.S. economy using the standard tools employed by economists.

The Process of Economic Growth. Economic growth is defined as an increase in the amount of real income per capita over time. At any moment of time, society is constrained in terms of its growth potential by three factors: (1) the amount of resources available for production, (2) the level of technology, and (3) the efficiency of the resource-allocating mechanism available.

Resources include land, labor and capital. Obviously each of these resources are fixed during the short-term. Land is fixed in the aggregate, but land use varies over time and across space according to economic need. Labor resources are restricted by population levels and labor force participation rates. In the past two decades we have observed a substantial increase in the labor force participation rate of females in the U.S.; hence, we noted a significant increase in the labor force during the 1970s. Capital refers to goods used in further production not used up in a single year. Capital includes plant and equipment, housing, roads, bridges, and so forth.

It is important to recognize that an increase in resources does not by itself lead to economic growth. By increasing our resources, we expand our capacity to grow. To be sure, an increase in resources usually accompanies economic growth. But there is no guarantee that growth will result from an increase in resources because the resources may lie fallow.

On the other hand, an increase in the level of

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[1] For a readable treatment of the results of some of these studies, see Committee for Economic Development, *Productivity Policy: Key to the Nation's Economic Future*, April 1983.

Table 3
The Economic Growth and Productivity Slowdown, 1960 - 1983

	Real GNP Per Hour Worked ($1972)	Real Income Per Capita ($1972)
1960	$5.53	$4078
1965	6.45	4765
1970	7.06	5248
1975	7.51	5581
1980	7.71	6475
1983	7.95	6360*
Annual Growth Rate 1960-1970	2.77%	2.87%
Annual Growth Rate 1970-1980	.92%	2.34%

* 1982 figure

Source: Real GNP per hour worked takes real GNP from the *Economic Report of the President*, 1984 and hours of work from Table 1 above. Real income per capita is from the U.S. Dept. of Commerce.

technology is an alternative means to increasing the capacity of the economy to grow. Technology refers to the way resources are mixed to produce a given level of output. Technological change implies a more efficient resource mixture; thus, with a given level of resources technological change can expand the growth potential of the economy. Technological changes are often embodied in capital. For example, the silicon chip is a technological change that made computers far more efficient.

While increases in resources and technology permit economic growth, it remains for an allocating mechanism to implement growth. The allocating mechanism in our economy is the price system. A flexible price system is a lubricant that can insure economic growth if resources and/or technology are increasing. Imagine that society demands more computers. At first the price of computers will rise. This price increase is a signal for suppliers to increase computer production. Resources are attracted into the computer sector. Growth in the computer sector occurs. Alternatively, if people desire more fuel-efficient cars, their price will increase. Again resources will move toward auto producers who build fuel-efficient cars. So the price system helps by insuring not only that we build what people desire, but also that we do it in as efficient way as possible. The latter exists because efficiency is commensurate with profit maximization. Clearly it is generally not efficient to be attracting resources to produce a product whose price is falling.

Given that the price system works (allocates resources efficiently), we can be assurred that if more of a certain good is desired, there will be an increase in resources allocated towards that good. In the aggregate economy then, an increase in resources will generally be synonymous with economic growth. That is, increases in capital or labor must have been in response to an increase in output. In discussing growth, economists have generally found their attention on capital. To be sure, labor is important. Most machines need someone to run them. But labor is a service flow that is consumed in a given time period. Capital, on the other hand, is a stock that lasts for many time periods. As such, capital has more far-reaching impact on the growth process over time. Hence the importance of construction to economic growth.

The Multiplier Process. When we construct new plant or equipment, i.e. increase investment capital, there are two impacts on the economy. First, investment is a spending flow; thus, the multiplier process goes to work. That is, if investment increases by $50 billion in the economy, the final change in income will be far greater than $50 billion. This is because the initial change in investment spending will increase income in the economy. With the increased income people will increase their spending, which will induce further increases in spending and income. The multiplier process describes the short run impact of increased investment on the economy. But increased capital has long run supply effects as well, in that net capital increases lead to increases in the capacity of the economy. Increased capacity allows more growth in the long run. Moreover, inflationary pressures are lessened, since one of the major determinants of inflation is capacity bottlenecks. Capital then has a two-pronged positive impact on the economy. We now turn to a further discussion of the short and long run effects of capital spending — or lack thereof in the U.S. economy over the past decade.

Short Run Effects of Underinvestment. The short run is defined as a period in which the capacity of the economy to grow is fixed. We observed in Table 1 that the net capital stock grew by 5.1 percent per year in the 1960s. In the 1970s capital grew by only 3 percent. This decline in the growth of capital meant we were underinvesting when compared to the 1960s. In the short run, we build capital by investment spending. Thus by reducing our growth of investment spending, there will be a reduction in income or output, *ceteris paribus*. To determine the reduction in income or output, we use multipliers.

As we noted earlier, the income multiplier will tell us the final change in income for an initial change in spending. It is important to recognize two constraints on the size of the multiplier in the short run. Imagine that investors decide to spend more on construction. More roads, dams and buildings are being built. The simple income multiplier assumes interest rates and prices are constant. In the short run this is not likely to be true. As construction expands, for a given supply of money interest rates will be driven up. The higher interest rates will choke off some of the increase in investment, reducing the size of the multiplier. Similarly, the increase in investment spending represents an increase in demand. In the short run an increase in demand can drive up prices. As the price of investment (and other related) goods increases, we observe less investment. Clearly there will be a lag from where the initial increase in spending occurs and the response of monetary authorities to accommodate the increased spending and thus steady or reduce interest rates. There will also be a lag between the initial change in spending and an increase in the supply of investment goods to relax the pressure on prices.

Economists employ two types of models to compute short run multipliers. One class of models are called stochastic, while the others are nonstochastic. Stochastic models are statistical models with error terms. Error terms are recognition that economic models are not perfect predictors. Nonstochastic models, on the other hand, are a recipe. If one adds 2x to 2x he will get 4x. There are no errors in this statement.

Aggregate stochastic econometric models of the U.S. economy have hundreds of equations. The equations are specified from our knowledge of how the economy works. The parameters of each equation are statistically estimated with time-series (generally quarterly) data; thus, the estimated equations represent the economic structure and behavior of agents (consumers, producers, workers, policymakers) over that time period.

The Associated General Contractors of America had Data Resources, Inc. (DRI) estimate the impact of a sustained $10 billion increase in federal construction over the 1985-90 period. DRI employed its 1002 equation econometric model. Included in the model were equations to represent the feedback effects of increased interest rates and prices which were described above as being constraints on the size of the income multiplier. DRI found that the $60 billion change over the six year period led to an increase of $141 billion in real GNP, i.e. the multiplier was estimated to be 2.35. To be sure, this expansionary effect also led to a slight increase in interest rates and aggregate prices, but these 'negative' effects were minor when compared to the positive output or short term growth effects.

If we accept the DRI estimate of 2.35 as a reasonable approximation of the multiplier, we can estimate in a crude way the short run cost of underinvesting in the 1970s. From 1970-74, real gross private domestic investment (GPDI) in the U.S. averaged 15.9 percent of real GNP (1972$). But from 1975 to 1982, GPDI was only 14.6 percent of real GNP. If we had invested as a share of GNP during the 1975-82 period like we did in 1970-74, on average over 1975-82 we would have invested about $18 billion per year more. Over seven years, this represents a total shortfall of $126 billion. When multiplied by the multiplier, there is a loss in GNP of over $200 billion. It is important to recognize that these numbers are merely illustrative, and probably represent upper bounds on the loss. This is because during this time period interest rates and price were volatile; thus, the income multiplier from the DRI model in 1975-82 was certainly smaller than 2.35.

Input-Output Multipliers. The nonstochastic model employed by economists to calculate short run multipliers is the input-output model. Professor Wassily Leontief, a Nobel Lauerate in Economics built the first input-output model of the U.S. economy in the 1930s. Input-output models divide the economy into sectors by good or service produced. The model shows what each sector sells to all other sectors, and thus what each sector buys from all other sectors. Any given sector sells to other sectors as well as final users (consumers, investors, government and exports). Given any change in final use, we can compute the direct and indirect effects on the economy given the fixed recipe of production. For example, assume that the government spends $10 billion more per year on

Table 4

Input - Output Multipliers

	New Nonresidential Building Construction	New Highway Construction	Maintenance and Repair
1963	2.252	2.075	1.859
1967	2.083	1.960	1.743
1973	2.146	1.986	1.770
1985	2.200	2.046	1.822
1990	2.220	2.000	1.838

Source: Computed from *Historical and Projected Input — Output Tables of the Economic Growth Project.* Vol II Total Requirements Tables, U.S. Dept. of Labor, BLS Bulletin 2056, 1980

construction. The construction sector will now increase its production level by $10 billion. Construction will follow the given recipe by buying so much from steel, manufacturing, and so forth. But as more steel is purchased, steel output increases according to its fixed recipe. Similarly, manufacturing production expands via its given recipe. Now to produce more steel requires manufacturing goods and construction. And more manufacturing requires more steel production. These indirect effects continue but of course get smaller. The sum of the direct and indirect effects divided by the change in spending gives us the multiplier.[2]

The chief benefit of the input-output model when compared to aggregate econometric models is that the former yields consistent forecasts. That is, the input-output forecast insures that every industry in the economy that is affected by the given change in spending will come forth with their required level of goods and services per the recipe embedded in the model. The major drawback of the input-output model is that the recipe is fixed. In the short run, however, this is not a serious problem.

In Table 4 we present input-output multipliers for three construction sectors. One can observe that these multipliers average about 2. The 2.252 value for nonresidential building construction in 1963 says that if investors spend $10 billion more on nonresidential structures, there would be $10 x 2.252 = $22.52 billion of total economic activity generated through the economy given the 1963 production recipes. Clearly the impact of increased spending is less with the input-output model than we find with the DRI model. Which one is closer to reality is difficult to say.

Long Run Effects of Underinvestment. In the long run, the capacity of the economy is variable, i.e. it may increase or decrease. We noted earlier that capacity increases can occur with resource (capital or labor) increases. That is, technological changes can yield an increase in capacity, given resource levels. Economists have found, however, that most technological changes are embodied in capital. When we invest in new plant and equipment, we change the mix of resources to produce more efficiently. This is economic growth. Unfortunately, our rate of investment in new plant and equipment has declined over the past decade, thus our capacity expansion has also declined. What are the effects of a slowdown in capacity expansion?

An economy runs a risk of overheating if capacity creation is not steady. Overheating means that we can have serious inflation problems. If the amount of capital per unit of labor is steady — as it probably has been on average over the past three years — increased production will lead to a wearing out of capital and a further depreciation of capacity. We will be overusing labor at the margin. The resulting inefficiencies will lead to bottlenecks and inflationary pressures. In addition, to get out of this situation we will have to significantly increase our savings in order to invest. But inflation erodes real consumption, so inflation leads to less savings. Since 1975, our savings rate in the U.S. has declined, which has been one of the major reasons for underinvestment. Steady advances in capital spending and thus capacity are clearly necessary conditions for noninflationary economic growth.

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[2] For more detail on how one actually calculates input-output multipliers see W.H. Miernyk, *The Elements of Input-Output Analysis*, Random House, 1965.

To measure the long run effects of (under)investment, economists use aggregate econometric models and input-output models. In the DRI simulation of a sustained $10 billion increase in public construction from 1985-90, there was a steady increase in potential output or capacity over the simulation period. In 1984, the U.S. economy is operating at about 82 percent of full capacity. Given the 1984 GNP (1972$) estimate from DRI of 1626.4 billion, potential output is estimated to be 1626.4 ÷ .82 = $1982.2 billion. We can calculate implicit forecasts of potential output given this 1984 benchmark and the rates of increase in potential output expected by DRI. Doing this, we find that due to the $60 billion increase in federal construction spending, potential output increases to $2020.1 billion. Thus in addition to the income and employment effects discussed earlier, the increased federal construction generates an additional $37.9 billion in potential output. This is an investment in long term growth, and an insurance policy against future inflation.

The input-output model and to forecast long run changes in spending is a dynamic input-output model. Unlike the static model discussed above in the short run analysis, the dynamic model computes the investment requirements to generate the increases in capacity required to meet increases in spending. Again consider the $10 billion increase in federal construction. As output expands in the construction sector, the utilization of capacity increases until investment spending is triggered in construction to generate new capacity. In one of the few published dynamic input-output models,[3] it was found that for the construction sector the dynamic model yields a multiplier 40 percent greater than the static model. Thus the total impact of the $60 billion increases in federal construction is 2.8 x $60 = $168 billion dollars. Interestingly, the DRI model's two effects (potential output and income) are $141 + $37.9 = $168.9 billion. Thus our two different models yield very similar answers when the long run effects of the construction programs are calculated.

Obviously one can work backwards and observe what the long run effects of underinvestment have been. We noted earlier a shortfall of $18 billion in investment over the 1975-82 period. Using the dynamic input-output multiplier of 2.8, we observe forgone output of over $350 billion, or $50 billion per year.

Summary. In this paper we began with a somewhat startling piece of data, i.e. the net capital stock per worker actually declined during the 1975-80 period. Long run growth theory tells us that to increase output per worker steadily there must be steady increase in capital per worker. While this problem of underinvestment can be masked in the short run, over time it will catch up to us and maybe even bring inflation back to a galloping pace. Construction/investment spending is an engine of economic growth in the short and long run. Without it, we put all of our eggs in the technology basket as a source of growth. Most economists argue that technological change is generated by investment and embodied in new capital. Alas, there is no substitute for investment.

AMERICA'S INFRASTRUCTURE:

Effects of Construction Spending

Study of a $10 Billion Annual Infrastructure Investment

The Associated General Contractors of America
1957 E Street, N.W., Washington, D.C. 20006 • (202) 393-2040

Data Resources Inc. Study

Economic Impact of a $10 Billion Annual Increase in Construction Spending

Executive Summary

In the 1950s, the annual increase of real (inflation-adjusted) public construction expenditures was 7.3 percent. During the 1960s, this massive growth nosedived to a rate of only 2.9 percent. The positive real growth in the 1960s slipped to a decline of .004 percent in the 1970s. Thus far in the 1980s, the decline has continued (see Table 1). As a result, the public sector has left a number of major capital needs unmet in the past two decades. In light of this problem, AGC commissioned Data Resources, Incorporated (DRI) to gauge the impact of a sustained $10 billion increase in federal construction expenditures for six years on the U.S. economy. While this is certainly a modest program in view of the massive funding gap, the study shows that the effects on the economy are significant.

The DRI Model. The DRI model is an integrated model of the U.S. economy. That is, the economy is broken down into a number of sectors — industrial, household, government, financial, and foreign trade — which are tied together using the fundamentals of economics, i.e. demand, supply and prices. Each sector is characterized by a series of equations which describe the economic activity in that particular sector. The equations are estimated statistically using historical data.

The DRI Forecasts Gross National Product

Using real (1984 dollars) Gross National Product (GNP) as its measure of output, DRI estimates that the $60 billion increase in federal construction expenditures will lead to a $141 billion increase in real GNP. As more spending on construction occurs, there is an increase in the income of workers. With this increased income, part will be spent and the rest saved. That part which is spent will lead to someone else's income increasing and they, in turn, will spend a fraction of this increase in their income. This process continues through many "rounds" of spending until it dies out. It is known as the multiplier. In the DRI model, the GNP multiplier is 2.35, since a $60 billion initial change leads to a 60 x 2.35 = $141 billion final change. This means that every dollar invested in construction will generate $2.35 in economic activity.

Production. Table 2 presents the program's effect on production in specific industries. Production in most industries rises 0.2 percent. Business and construction equipment, electrical machinery, plastics, electrical components, and communications equipment experience especially strong gains. The primary metals industries, which have been particularly battered in the early 1980s from low GNP growth and foreign competition, would also receive a boost.

Table 1

Recent Growth in Real* Public Construction Expenditures (Billions of 1972 Dollars)

	Construction Expenditures	Percent Change
1950	12.65	7.3 %
1960	21.88	2.9
1970	30.77	.004
1980	29.55	8.8

* Nominal values of construction were divided by the GNP deflator for fixed investment, which represents expenditures for plant and equipment.

Source: *Economic Report of the President*, 1984

Table 2
Industrial Production: Big Gainers
(Percent change vs. baseline)

	1984	1985	1986	1987	1988	1989	1990
Total Production	0.0	0.3	0.3	0.2	0.2	0.1	0.1
Big Gainers							
Basic Steel and Mill Products	0.2	0.9	0.9	0.8	0.6	0.4	0.4
Iron and Steel Foundries	0.1	0.6	0.6	0.5	0.4	0.2	0.3
Communication Equipment	0.2	0.8	0.8	0.8	0.7	0.7	0.7
Construction and Allied Equipment	0.2	0.6	0.5	0.5	0.5	0.4	0.3
Synthetic Materials	0.0	0.5	0.5	0.4	0.3	0.1	0.0
Plastics Products	0.0	0.4	0.5	0.4	0.3	0.1	0.0
Textile Mill Products	0.0	0.4	0.5	0.4	0.3	0.2	0.2

Employment. DRI predicts that the $60 billion construction program will lead to an increase in employment of 1.92 million person years over the six years. The 1.92 million additional jobs may be further broken down into the 1.1 million occurring in contract construction and the .82 million jobs generated throughout the economy. The latter represents the indirect or spillover effect on the rest of the economy of the increased construction activity. The largest indirect effects are felt in wholesale and retail trade, services, and manufacturing.

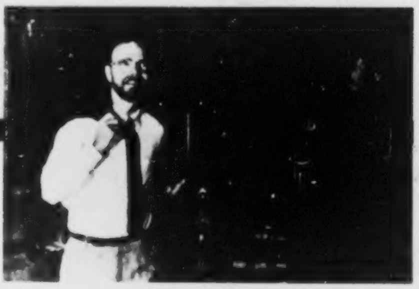
At the end of 1983, unemployment in the construction sector totaled 840,000 workers which represented 16.3 percent of the total construction work force. The expected increase in the number of construction jobs per year from 1984-90 is shown in Table 3. By the third year of the federal construction spending program, 123,000 new jobs in contract construction are generated. This would represent a 20 percent reduction in the 1983 unemployment level, other things being equal. In Table 3, we have also shown the annual total increase in employment due to the new federal construction spending as calculated by DRI. The total increase in employment less the increase in construction yields the increase in the rest of the economy. The latter is shown in the third row of Table 3. The impact of the increased construction activity is felt relatively quickly by the non-construction sectors. As the new spending continues, however, construction's share of the overall increase gets larger. In other words, as new spending cranks up, the demand for manufacturing goods increases. The manufacturing sector will hire additional workers to meet the increased demand. More workers will be hired each year, but not near as many as were hired in the first few "build-up" years.

Table 3
Annual Employment Effects of a Sustained $10 billion Increase in Federal Spending
(Thousands of workers)

	1984	1985	1986	1987	1988	1989	1990
1. Contract Construction	5.8	67.0	123.0	171.3	214.0	253.8	289.5
2. Total	13.2	138.5	235.3	304.7	365.7	412.0	458.5
3. Non Construction (2)-(1)	7.4	71.5	112.3	133.4	151.7	158.2	169.0

A Foreword by Douglas M. Brown, Ph.D., Chairman of the Department of Economics, Georgetown University

"The Effects of Construction Spending in the U.S. Economy"



Douglas M. Brown, Ph.D

In May, 1984, the Associated General Contractors of America had Data Resources, Incorporated (DRI) prepare an economic impact study of the effect of a sustained, additional $10 billion federal construction expenditure on the aggregate U.S. economy between 1985 and 1990. DRI is one of the leading firms in the country in performing such tasks. They have built a 1002 equation model of the U.S. economy that is estimated with quarterly economic data. Given future (1) fiscal and monetary policy, (2) energy and agriculture prices, (3) foreign economic activity and (4) demographic trends, DRI can forecast the impact of almost any exogenous shock on aggregate output, employment, and prices down to a fine level of industry detail.

The $60 billion of additional federal spending on public construction over the 1985-1990 period led to (1) a $141 billion increase in real (1984 dollars) GNP; (2) an increase of 1.92 million person-years of employment, or 32,000 jobs for each $1 billion of real expenditure; (3) an increase in interest rates of up to 20 basis points; and (4) an increase in the federal budget deficit nearly equivalent to the net cost (expenditures less receipts) of the construction program. Only one industry suffered a decrease in employment over the study period — lumber and wood products. This is due to the negative impact of the increase in interest rates on the residential construction sector.

The purpose of my remarks here is to identify the implicit and explicit assumptions underlying the Data Resources, Inc. (DRI) study so that the reader can more fully assess the quantitative predictions of the DRI exercise. More specifically, we will consider the following six issues. First, what are the ramifications of having the financing of the public construction spending be mostly deficit spending? Second, DRI employed a very accommodating monetary policy in their analysis; did this assumption affect the forecasts markedly? Third, we specify the general assumptions required to generate the forecast, and ask ourselves if they seem reasonable. Fourth, we consider the effects of increased public construction expenditure on the capacity of the economy to grow. DRI only indirectly addresses this issue. Next, we turn to a discussion of whether the recent "crowding out" effects of federal spending will be primarily felt in residential construction markets, which is explicitly assumed in the DRI model. Last, we ask if the structure of DRI's large model can adequately reflect the recent downturn of the construction sector in the U.S. economy.

The Choice of Financing the $10 billion of Public Construction. Essentially two polar alternatives exist for deciding how the government will finance the increased expenditure of $10 billion. First, one can assume that the $10 billion is financed partially by tax revenues with the rest from borrowing. So if borrowing made up 25 percent of total federal spending, we would say that $2.5 billion of the $10 billion was deficit spending on average. While this approach is intuitively reasonable, it poses problems for the economic impact analyst. For example, by treating 75 percent of the increased expenditure as being financed by tax revenues, we are implicitly saying this is an existing federal expenditure. Alternatively, we could say — if we desire to minimize deficit spending in doing the impact study — that public construction could replace some other expenditure category by $60 billion over the next five years. In this case, however, we would have to compare the net impact of public construction spending with that category being replaced. Clearly in this situation the impact of the $10 billion would be much smaller, since most economic impacts are not drastically different. In others words, the real GNP impact of the replacement program may have been estimated to be $120 billion; thus, the net effect of the construction spending program would only have been $21 billion. Of course, employment, interest rate and deficit impacts would be proportionately less.

An alternative to the "average" financing approach described above is to assume the increased construction spending is a new program, and as such will add (more) to the deficit. To be sure, indirectly the increased expenditure leads to economic growth, which

Table 4

Fiscal Effects of the DRI Construction Simulation
(Billions of current dollars)

Increase in:	1984	1985	1986	1987	1988	1989	1990
Federal Expenditures	2.5	10.9	13.4	16.3	19.7	23.0	25.1
Federal Receipts	.8	4.8	6.8	8.5	10.4	11.0	10.1
Deficit	-1.7	-6.2	-6.6	-7.8	-9.3	-12.0	-14.9

Fiscal Effects. DRI assumed that the new construction spending was not accompanied by either a tax increase or an expenditure reduction. Consequently, the new federal construction program is assumed to be financed completely by deficit spending. Since the deficit comprises approximately one-fourth of total federal spending, a sustained program of $60 billion over six years would, consequently, lead to only $15 billion of deficit spending (one-fourth of $60 billion), other things being equal. To understand what happens fiscally, we recognize that the increase in construction spending adds $10 billion to expenditures (1984 dollars) each year from 1985 through 1990. We also know via the multiplier that there will be an increase in economic activity overall in the economy. This increase in activity will lead to more federal expenditures as well as increased tax receipts due to increased incomes. In addition, prices may increase slightly especially in those industries that have an increase in the demand for their products and had already been operating at capacity. Federal tax collections do not have a proportionate effect with expenditures, i.e., for each dollar increase in federal spending, there will be less than a dollar's increase in tax revenue collected.

The DRI findings are rewritten as Table 4. Expenditures, receipts and the deficit are all in **current** rather than 1984 dollars in Table 4, i.e., they are not adjusted for inflation. Expenditures increase by $2.5 billion in 1984, $10.9 in 1985, and steadily rise to a $25.1 billion level in 1990. Government spending increases due to (1) the expanding economy demanding more government services, (2) inflation, and (3) deficit financing (interest charges on the debt now exceed 12 percent of federal expenditures). Receipts also increase with the expanding economy, but they don't keep up with expenditures as much as they would have in the 1970s because of (1) tax cuts passed in 1982-84, and (2) income tax indexation which begins in 1985.[*]

If the federal construction increase were not totally deficit financed, then we could expect in the DRI model that the fiscal effects would be quite different, i.e. deficits would not increase as much. This would lead to small increases in interest rates.

Money Markets. In general, DRI has forecasted that interest rates will fall over the 1984-90 period by around 2.25 percent. For example, three month T-bills, which were at 9.6 percent in 1984, are forecasted to fall to 7.37 percent in 1990. The $60 billion of additional federal construction is expected to add about .25 percent to the interest rates; thus, three month T-bills in the study only decline to 7.5 percent by 1990.

Prices. The GNP deflator is expected to increase from the low 4's to the high 5 percent range by 1990. The $60 billion real increase in federal construction spending is not forecasted to have a significant effect on inflation. Part of the reason for this is the tremendous unemployment in the contract construction sector, and the accompanying decreases in real wage rates that have occurred in the recent past. A second reason is that the increased federal construction spending increases potential output of the private sector.

Summing Up. DRI has predicted that an increase of $10 billion per year in federal construction spending over six years would lead to a strong expansion in the U.S. economy. Real GNP, production, and employment would increase significantly, and prices would not rise significantly.

—The Associated General Contractors of America
October, 1984

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[*] DRI assumed the first 2 percent of inflation would be ignored in the indexation scheme.

generates increased tax receipts. As noted in the DRI report, "Neither a tax increase nor an expenditure reduction was included in the simulation to offset the new construction policy." Clearly then, DRI chose to view the increased expenditure as a new program. This is certainly a plausible choice, and it leads to impact levels that are no doubt the highest they could be, given the structure of the economic model. In sum, if DRI would have analyzed the increased expenditure as replacement rather than expansion, there would not have been near the story to tell. Readers must decide for themselves what is the more reasonable approach for financing. It should be clear, however, that there is nothing wrong per se in the DRI approach. It is also true that the DRI choice led to stronger increases in interest rates than would have occurred if the replacement financial strategy had been employed.

Accommodating Monetary Policy. As the federal government spends more on public construction, in the real sector of the economy more output is produced and new jobs are generated via the multiplier effect of the expansion. But this increased economic activity in the real sector can be slowed appreciably if the federal government has to borrow heavily to finance the increased construction expenditure. That is, the demand for money will increase, and will drive up interest rates. Consumers and investors not willing to pay these higher rates will be crowded out of the money market; thus, aggregate demand (and therefore output) will not increase as much as it could have if interest rates were held constant. The expansion effect of the increased construction spending is lessened due to increased interest rates. One way out of this problem is for the Federal Reserve to have an accommodating monetary policy. Such a policy would allow a more or less proportionate increase in the money supply as the federal government increased demand, which would result in at least a slower rate of increase in interest rates.

In the DRI study, the basic assumption is that the real (inflation-adjusted) increase in the money supply (M2)[1] averages 2.8 percent over the forecast period. Presently, the Federal Reserve's target growth rate for nominal M2 is 8 percent. This target rate has been operable for over six months in 1984, when real growth in output has exceeded 6 percent. Inflation has been rising an annual rate of 3.5 percent thus this year, while M2 growth has been about 7 percent; thus, real growth in M2 has been 7 minus 3.5 percent, which equals 3.5 percent. So, at the present time, the monetary authorities believe a 6 percent increase in real output can be accompanied by a 3.5 percent increase in the real money supply. The DRI model's basic forecast (without the $60 billion of public construction) is for real output to increase at about 3 percent per year from 1985-1990. Since DRI has a 2.8 percent real increase in M2 for the forecast period, their monetary policy is very accommodating when compared to the present situation (1984). In addition, for the construction simulation DRI assumed a 0.3 percent increase in M1 (currency and checking deposits) by 1990.

The major determinant of the acceptability of the accommodating monetary policy will be inflation. In 1981-82 the Federal Reserve decided to unilaterally fight inflation with monetary restraint. If inflation returned to double digit levels over the next six years, it is not likely that the Fed would continue an accommodation posture.

Key Assumptions Behind Forecast. As noted in this introduction, DRI makes forecasts of fiscal and monetary policy, energy prices, etc. in order to generate economic forecasts. We have already discussed the monetary policy assumptions, and found them to be optimistic. On the fiscal side, deficits remain, in the $155-200 billion range, with the passage of a $50 billion deficit reduction package reducing interest rates somewhat. New revenues are generated by indirect taxes, and by ignoring the first 2 percent of inflation in regard to income tax indexation. Defense spending grows as a share of GNP. Crude oil prices are expected to increase at 7.9 percent annually after the present glut disappears.

Most of these assumptions seem reasonable. It is important, however, to recognize that present record deficits are abnormal during a period of economic growth. Moreover, the deficits are being financed in unprecedented proportions by inflows of money capital from abroad. If these capital inflows were shut off for any reason, an alternative fiscal policy would be required to attempt to generate similar, strong economic growth results. The alternative policy would be too restrained to be consistent with strong growth. In a restrained economic environment, the injection of $60 billion in public construction would be relatively more productive in the real sector of the economy.

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[1] M2 includes currency, checking deposits, money market funds, savings and small time deposits, and overnight RP's and Eurodollars.

Effects of Public Construction on Capacity. The $60 billion of public construction will increase the capacity of the economy to grow. Unfortunately, the DRI model (and all other aggregate econometric models) does not explicitly account for this benefit. Indeed, the DRI model relates capacity or potential output to the following: (1) the labor force; (2) the size and age of the private nonresidential capital stock; (3) energy supplies; and (4) the impact of research and development spending on productivity. Clearly the public capital stock (roads, bridges, locks, etc.) is omitted, yet public capital expansion and/or replacement is a necessary condition for economic growth. To be sure, DRI acknowledges that potential output will grow at the same rate as real GNP due to the increased public construction expenditure. But this forecast is not a result of the DRI model per se.

In summary, the DRI methodology understates some of the beneficial aspects of the $60 billion expenditure because its model does not recognize the relationship between public capital formation and economic growth.

Crowding Out and Residential Construction. As noted earlier, the negative impact of the increased public construction spending occurred due to the federal government crowding out private investors in the money markets. The resultant increases in interest rates led to a reduction in residential housing construction, and of course, the lumber industry. In their 1984 *Economic Report of the President*, the Council of Economic Advisors (CEA) argue that soon the residential construction sector will no longer bear the brunt of crowding out. Normally investment in plant and equipment (as well as some consumption spending) declines as interest rates rise. Since 1982 however, the (1) increases in corporate profits and retained earnings, along with (2) 1981 tax law changes have served to make business equipment immune from crowding out. But according to the CEA Report, "This too will change with time, placing more of the burden of future crowding out on business investment in plant and equipment."

The upshot of this coming change is that the impact as measured by DRI clearly overstates the negative effects of increased construction spending. While some of the "heat" will be taken off residential construction, there will be less private investment as interest rates rise. While reduced private investment may not significantly affect short term growth, in the long run there will be less capacity for economic growth.

The Structure of DRI's Model. Aggregate econometric models like that of DRI are estimated statistically using historical data. Recent structural changes are difficult to embed accurately in the estimation process. Significant structural changes have occurred in the construction sector recently. The major one is the increased dominance of open shops, and their impact on wage agreements industry-wide. In 1983 wages in construction increased 2.2 percent. When adjusted for changes in work rules and other structural factors, wages may only have increased 1.5 percent in 1983. To date, bargaining agreements in 1984 show a *decline* in wages. Moreover, the number of firms filing for bankruptcy has proceeded at a record pace in the past two years. These structural changes in the construction sector are not likely to be fully captured in DRI's parameter estimates. The net effect would be that DRI has likely understated the impact of the increased public construction spending on the construction industry.

Conclusion. The DRI study is an excellent, state-of-the-art impact analysis. Nevertheless, there were some choices made by DRI that led to the results they obtained. The net effect of these factors will have to be judged by the reader; however, from this vantage point it is likely that DRI both underestimated the positive and overestimated the negative impacts of the sustained increase in public construction spending. While the Federal Reserve is not likely to be as accommodating with their monetary policy as DRI expects, a stronger impact on interest rates may be felt outside the residential construction sector. Thus the overall expansionary effects of the program would be reduced, but the contractionary effects forecasted for the residential and lumber sectors would also be lessened.

Data Resources Inc. Study

The Effects of Construction Spending on the U.S. Economy

Prepared for the Associated General Contractors of America

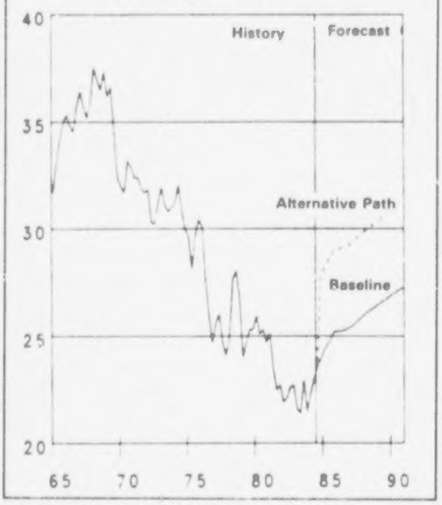
After the neglect of the last 15 years, the nation's roads, bridges, and sewer systems will pose increasingly serious health and safety problems through the end of this century. In the 1950s, total government spending on construction increased an average of 6 percent a year (after adjustment for inflation) and 3 percent annually in the 1960s; but in the 1970s, in contrast, spending fell at a 2.4 percent rate. A recent report by the Joint Economic Committee of Congress estimates that an annual commitment of $70 billion until the year 2000 is needed to deal properly with the decay of the nation's capital stock — two-thirds again the amount federal and local authorities are currently spending on new construction and repairs.

As a public good, infrastructure is the responsibility of government. The benefits of most projects are widely spread among individuals, making it inefficient — and in some cases impossible — for private enterprise to supply infrastructure needs. Because of its broad tax base, the federal government is the best source of funds for improving the national physical plant.

This study examines the effects that a significant (16 percent) increase in public construction would have on the federal budget and the U.S. economy, as well as industrial production and employment. The analysis is based on the Data Resources, Inc. (DRI) model of the U.S. economy, which captures the broad linkages among the major sectors — government, financial, household, industrial, and foreign trade — while providing detail down to the two- and three-digit industry level. Using the current DRI forecast of the economy as a baseline, the simulation results indicate that a sustained $10 billion (1984 dollars) increase in infrastructure spending, effective starting in fiscal 1985, would:

- Expand total output 0.3 percent a year. Higher demand raises prices by 0.3 percent as well, pushing nominal gross national product (GNP) 0.6 percent above the baseline level.
- Boost economy-wide employment by 1.92 million man-years over six years. Therefore, each $1 billion (1984 dollars) in construction spending eventually creates 32,000 jobs.
- Increase potential GNP 0.6 percent by 1990, raising productivity while building a strong foundation for growth through the 1990s.
- Induce major increases in construction and construction equipment spending, with significant feedthrough effects in the primary metals and both the nonelectrical and electrical machinery industries.
- Generate output growth that initially returns one-third of the program cost in taxes. After six years, however, the annual increase in the deficit is the entire program cost.

Chart I
Total Government Construction Spending
(Billions of 1972 dollars)



The DRI model provides two avenues for tracking the economic effects of the spending increase: federal construction expenditures and federal nondefense purchases of private goods and services. Construction spending intensifies demand in the construction equipment, business equipment, and primary metals industries. The increased derived demand for inputs boosts production in almost all other industrial categories. Higher production levels raise the incomes of workers and businessmen, adding to aggregate demand for all goods and services. The well-known multiplier effects generate yet more income and more demand, raising total output beyond the initial effects of increased construction spending. Neither a tax increase nor an expenditure reduction was included in the simulation to offset the new construction policy.

The macroeconomic effects of this kind of fiscal stimulus are detailed in Table 1. Real GNP quickly rises to 0.3 percent above the baseline and remains there throughout the interval.[1] Over calendar years 1985 — 1990, the $60 billion in additional construction expenditures boosts GNP $141 billion (1984 dollars), implying a 2.3 real goods and services multiplier. Higher demand partially translates into higher prices: both the consumer price index and price deflator for domestically produced goods and services rise 0.3 percent. Nominal GNP is up $15 billion in 1985, rising to $38.2 billion in 1990. In 1985-87, the rate of inflation climbs 0.1 percentage point more per year than in the baseline.

The shift in federal spending induces a slight change in the composition of GNP. Despite higher prices, consumption rises 0.2 percent. Interest rates rise 10-20 basis points, but total private investment remains virtually unchanged from the baseline. Nonresidential investment is 0.2 percent stronger, but residential construction falls due to the higher interest rates and higher construction prices that result from competition for resources with the government. The monthly mortgage payment for a median-priced new home rises $10. Stronger aggregate demand leads to greater import penetration. Demand for workers increases, boosting labor compensation. At the aggregate level, however, productivity gains appear by 1989, keeping unit labor costs nearly stable in the 1990s.

Table 1
Macroeconomic Impacts of Increased Construction Spending
(Percent change vs. baseline)

	1984	1985	1986	1987	1988	1989	1990
Real Output and Demands							
Gross National Product	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Industrial Production	0.0	0.3	0.3	0.2	0.2	0.1	0.1
Potential GNP	0.0	0.1	0.1	0.2	0.4	0.5	0.6
Nonresidential Invest	0.0	0.1	0.1	0.1	0.2	0.1	0.1
Residential Invest	0.0	-0.2	-0.5	-0.5	-0.5	-0.6	-0.8
Exports	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1
Imports	0.0	0.2	0.3	0.4	0.4	0.4	0.4
Federal Purchases	0.8	2.9	2.8	2.7	2.6	2.6	2.5
State & Local Purchases	0.0	0.0	0.1	0.2	0.2	0.2	0.2
Consumption	0.0	0.1	0.2	0.2	0.2	0.2	0.3
Durables	0.0	0.3	0.4	0.4	0.4	0.4	0.5
Key Indicators							
Manufacturing Employment (Millions)	0.00	0.03	0.04	0.03	0.03	0.02	0.02
Manufacturing Investment	0.0	0.1	0.1	0.1	0.0	0.1	-0.2
Federal Funds Rate (% points)	0.01	0.12	0.16	0.19	0.23	0.28	0.26
Corporate Bond Rate (% points)	0.01	0.05	0.08	0.09	0.09	0.07	0.02
Mortgage Commitment Rate (% points)	0.00	0.03	0.06	0.08	0.09	0.09	0.08
Nonborrowed Reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money Supply (M1)	0.0	0.1	0.2	0.3	0.4	0.4	0.3
Money Supply (M2)	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Nominal GNP	0.1	0.4	0.5	0.6	0.7	0.7	0.6
CPI	0.0	0.0	0.1	0.2	0.3	0.3	0.3
Deflator for GNP	0.0	0.1	0.2	0.3	0.4	0.4	0.3
Exchange Rate	0.0	0.1	0.2	0.2	0.2	0.3	0.3
Labor Compensation	0.0	0.1	0.2	0.3	0.4	0.4	0.4
Productivity	0.0	0.0	0.0	0.0	0.0	0.2	0.4

Although the simulation makes no explicit changes in monetary policy, the expansion of nominal GNP implies that the Federal Reserve must permit some additional growth in the money supply. The results are consistent with a 0.3 percent increase in M1 by 1990. Should the Fed not be as accommodating to this increased money demand, a less optimistic scenario would result.

Table 2
Government Spending
(Relative to baseline, billions of current dollars)

	1984	1985	1986	1987	1988	1989	1990
Construction	2.5	10.6	11.7	12.8	14.0	15.0	16.0
Federal Budget							
Expenditures	2.5	10.9	13.4	16.3	19.7	23.0	25.1
Receipts	0.8	4.8	6.8	8.5	10.4	11.0	10.1
Deficit	-1.7	-6.2	-6.6	-7.8	-9.3	-12.0	-14.9

Table 3
Industry Employment
(Thousands of workers vs. baseline)

	1984	1985	1986	1987	1988	1989	1990
Nonagricultural Establishments	13.2	138.5	235.3	304.7	365.7	412.0	458.5
Contract Construction	5.8	67.0	123.0	171.3	214.0	253.8	289.5
Finance, Insurance & Real Estate	0.0	0.7	1.9	3.3	4.8	6.1	6.9
Mining	0.6	2.3	2.9	2.6	2.4	2.1	2.0
Transportation and Public Utilities	0.3	4.7	8.9	11.0	12.1	11.8	11.7
Services	0.3	6.9	18.0	28.1	37.0	43.5	49.0
Wholesale and Retail Trade	0.2	8.2	20.4	30.8	39.9	46.8	55.1
Government	0.9	8.0	10.6	10.7	11.6	11.6	11.0
Manufacturing	2.0	27.6	36.5	33.5	30.0	22.3	18.8
Nondurables Manufacturing	0.2	7.6	13.7	14.2	13.7	11.2	10.1
Food and Products	0.0	0.9	1.8	1.9	2.0	1.9	2.1
Tobacco Products	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Textiles and Products	0.1	1.6	2.5	2.3	1.9	1.2	0.9
Apparel and Products	0.0	1.4	3.0	3.2	3.4	3.2	3.2
Paper and Products	0.0	0.4	0.5	0.4	0.3	0.2	0.2
Chemicals and Products	0.0	0.9	1.7	1.9	1.8	1.4	1.1
Printing and Publishing	0.0	0.5	1.2	1.8	2.1	2.2	2.1
Petroleum Products	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Rubber and Plastics Products	0.1	1.6	2.5	2.3	1.7	0.6	0.0
Leather and Products	0.0	0.3	0.4	0.3	0.3	0.3	0.4
Durables Manufacturing	1.8	20.0	22.8	19.3	16.2	11.1	8.7
Lumber and Wood Products	0.0	-0.7	-2.5	-3.0	-3.1	-3.5	-4.3
Furniture and Fixtures	0.0	0.4	0.8	1.0	1.1	1.1	1.1
Stone, Clay, and Glass	0.0	0.6	0.6	0.5	0.4	0.1	-0.1
Primary Metal Industries	0.3	2.4	2.4	1.8	1.2	0.4	0.0
Fabricated Metal Products	0.1	1.3	1.3	1.5	1.5	1.0	0.3
Nonelectrical Machinery	0.4	4.9	6.4	5.8	5.2	4.4	3.4
Electrical Machinery	0.6	7.1	8.2	6.4	5.4	4.3	3.9
Transportation Equipment	0.2	2.9	3.3	2.6	1.6	0.5	1.4
Instruments and Parts	0.1	0.8	1.4	1.8	1.9	2.0	1.9
Miscellaneous Manufacturing	0.0	0.5	0.8	0.8	0.9	0.9	1.1

Changes in the federal balance sheet are reported in Table 2. The first line gives the annual increase in construction spending (nominal dollars) relative to the baseline. As shown in the second line, total government spending would be slightly higher than the construction expenditures because of a stronger economy and higher price level. Higher incomes increase government receipts, somewhat closing the expenditure gap. The federal deficit initially rises by two-thirds of the full cost of the new government program; within six years, however, higher debt service payments and the depressive effects of higher interest rates increase the net cost of the program to the total amount of construction outlays.

Tables 3, 4, and 5 present the program's effects on both employment and production in specific industries. Establishment employment rises 100,000-400,000 workers above the baseline, initially reducing the civilian unemployment rate by 0.1 point; labor supply increases then bring unemployment back to trend. The $60 billion (cumulative) increase in federal spending raises total employment by 1.92 million workers between 1985 and 1990, suggesting that $1 billion (1984 dollars) in construction funds creates 32,000 jobs (man-years) throughout the economy. Construction employment rises gradually throughout the forecast interval from an additional 23,000 workers in the end of 1984 to 302,000 workers at the end of 1990. The machinery and primary metals industries see employment rise 0.3-0.5 percent above their baseline levels. Other industries are pulled along by the growth in aggregate demand. While services and trade employment expands by only 0.1-0.2 percent; these sectors each add up to 50,000 workers by 1990 because they account for 20 percent of total nonagricultural employment. The lumber products industry is slightly depressed because of cutbacks in residential construction.

Production in most of the two-digit industries rises 0.2 percent, the same increase shown in the aggregate index. Business and construction equipment, electrical machinery, plastics, electrical components, and communications equipment experience especially strong gains. The primary metals industries, which have been particularly battered in the early 1980s from low GNP growth and foreign competition, would also receive a boost. The only industries with significant declines are lumber products and nonferrous metals, both of which have significant ties to the housing industry.

Chart 2
Federal Deficit
(Billions of current dollars)

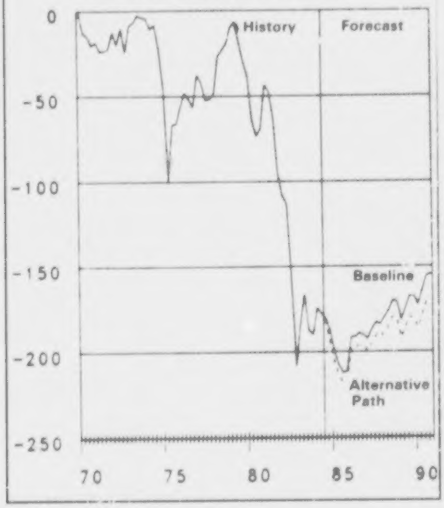


Chart 3
Establishment Employment Gains
(Thousands of workers)

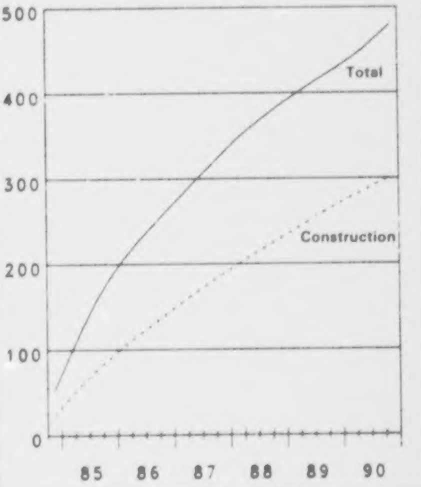


Table 4
Industrial Production
(Percent change vs. baseline)

	1984	1985	1986	1987	1988	1989	1990
Total Production	0.0	0.3	0.3	0.2	0.2	0.1	0.1
Products, Total	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Final Products	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Consumer Goods	0.0	0.2	0.2	0.2	0.2	0.1	0.2
Business Equipment	0.1	0.3	0.3	0.3	0.3	0.2	0.2
Defense Equipment	0.1	0.4	0.4	0.3	0.3	0.3	0.3
Intermediate Products	0.0	0.2	0.2	0.2	0.2	0.2	0.1
Materials	0.1	0.4	0.4	0.3	0.2	0.1	0.1
Manufacturing	0.0	0.3	0.3	0.2	0.2	0.1	0.1
Durables Manufacturing	0.1	0.3	0.3	0.2	0.2	0.1	0.1
Nondurables Manufacturing	0.0	0.2	0.3	0.2	0.2	0.1	0.1
Primary Processing	0.0	0.3	0.2	0.2	0.1	0.0	0.0
Advanced Processing	0.0	0.3	0.3	0.3	0.2	0.2	0.2
Utilities	0.0	0.1	0.2	0.2	0.2	0.2	0.2
Mining	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Oil and Gas Extraction	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Mining	0.1	0.2	0.1	0.1	0.1	0.0	0.0

Table 5
Industrial Production: Big Gainers and Losers
(Percent change vs. baseline)

	1984	1985	1986	1987	1988	1989	1990
Total Production	0.0	0.3	0.3	0.2	0.2	0.1	0.1
Big Gainers							
Basic Steel and Mill Products	0.2	0.9	0.9	0.8	0.6	0.4	0.4
Iron and Steel Foundries	0.1	0.6	0.6	0.5	0.4	0.2	0.3
Communication Equipment	0.2	0.8	0.8	0.8	0.7	0.7	0.7
Construction and Allied Equipment	0.2	0.6	0.6	0.5	0.5	0.4	0.3
Synthetic Materials	0.0	0.5	0.5	0.4	0.3	0.1	0.0
Plastics Products	0.0	0.4	0.5	0.4	0.3	0.1	0.0
Textile Mill Products	0.0	0.4	0.5	0.4	0.3	0.2	0.2
Losers							
Lumber and Products	0.0	-0.2	-0.4	-0.4	-0.5	-0.5	-0.6
Nonferrous Metals	0.0	0.0	-0.2	-0.3	-0.4	-0.5	-0.5

APPENDIX A

APPENDIX A
MACROECONOMIC INDICATORS

	1984	1985	1986	1987	1988	1989	1990
GROSS NATIONAL PRODUCT – 1972 DOLLARS							
Construction Simulation	1,626.4	1,671.9	1,721.8	1,781.1	1,839.9	1,895.1	1,951.3
DRI Forecast	1,625.4	1,666.7	1,716.1	1,775.3	1,834.0	1,889.5	1,945.4
Difference	0.9	5.2	5.7	5.8	5.9	5.6	6.0
% Difference	0.1	0.3	0.3	0.3	0.3	0.3	0.3
FINAL SALES – 1972 DOLLARS							
Construction Simulation	1,605.6	1,658.3	1,709.2	1,767.2	1,825.0	1,880.2	1,936.1
DRI Forecast	1,604.6	1,653.2	1,703.7	1,761.5	1,819.2	1,874.6	1,930.2
Difference	1.0	5.0	5.5	5.7	5.8	5.6	5.9
% Difference	0.1	0.3	0.3	0.3	0.3	0.3	0.3
PERSONAL CONSUMPTION EXPENDITURES – TOTAL – 1972 DOLLARS							
Construction Simulation	1,060.3	1,089.3	1,115.7	1,147.3	1,181.5	1,215.1	1,248.6
DRI Forecast	1,060.2	1,087.8	1,113.6	1,144.9	1,178.9	1,212.5	1,245.5
Difference	0.1	1.5	2.1	2.4	2.6	2.6	3.1
% Difference	0.0	0.1	0.2	0.2	0.2	0.2	0.3
GROSS FIXED PRIVATE NONRESIDENTIAL INVESTMENT – 1972 DOLLARS							
Construction Simulation	191.1	203.5	215.4	227.1	237.2	245.8	254.1
DRI Forecast	191.1	203.3	215.1	226.8	236.8	245.4	253.9
Difference	0.0	0.1	0.3	0.3	0.4	0.3	0.3
% Difference	0.0	0.1	0.1	0.1	0.2	0.1	0.1
NONRESIDENTIAL INVESTMENT IN PRODUCERS' DURABLE EQUIPMENT – 1972 DOLLARS							
Construction Simulation	136.4	146.2	155.9	164.9	172.5	179.1	185.5
DRI Forecast	136.4	146.1	155.8	164.7	172.2	178.8	185.3
Difference	0.0	0.1	0.2	0.2	0.3	0.3	0.3
% Difference	0.0	0.0	0.1	0.1	0.2	0.2	0.1
GROSS INVESTMENT IN PRIVATE NONRESIDENTIAL STRUCTURES – 1972 DOLLARS							
Construction Simulation	54.6	57.3	59.4	62.2	64.7	66.7	68.6
DRI Forecast	54.6	57.2	59.3	62.2	64.6	66.6	68.6
Difference	0.0	0.0	0.1	0.1	0.1	0.0	0.0
% Difference	0.0	0.1	0.1	0.1	0.1	0.1	0.0
GROSS FIXED PRIVATE RESIDENTIAL INVESTMENT – 1972 DOLLARS							
Construction Simulation	59.9	57.2	59.7	65.1	67.0	67.7	68.2
DRI Forecast	59.9	57.4	60.0	65.4	67.4	68.1	68.7
Difference	0.0	-0.1	-0.3	-0.3	-0.4	-0.4	-0.5
% Difference	0.0	-0.2	-0.5	-0.5	-0.5	-0.6	-0.8
EXPORTS OF GOODS AND SERVICES – 1972 DOLLARS							
Construction Simulation	146.8	156.1	164.6	172.5	181.1	191.2	202.3
DRI Forecast	146.8	156.1	164.7	172.6	181.2	191.4	202.5
Difference	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.2
% Difference	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1

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	1984	1985	1986	1987	1988	1989	1990
IMPORTS OF GOODS AND SERVICES – 1972 DOLLARS							
Construction Simulation	155.3	165.4	171.4	178.8	186.5	193.3	200.4
DRI Forecast	155.3	165.1	170.8	178.1	185.7	192.5	199.6
Difference	0.0	0.3	0.6	0.7	0.8	0.8	0.8
% Difference	0.0	0.2	0.3	0.4	0.4	0.4	0.4
FEDERAL GOVERNMENT PURCHASES – ALL GOODS AND SERVICES – 1972 DOLLARS							
Construction Simulation	123.7	133.7	137.8	142.6	147.7	151.3	154.7
DRI Forecast	122.7	130.0	134.0	138.9	143.9	147.5	150.9
Difference	0.9	3.8	3.8	3.8	3.8	3.8	3.8
% Difference	0.8	2.8	2.7	2.6	2.6	2.5	2.4
STATE & LOCAL GOVERNMENT PURCHASES – GOODS & SERVICES – 1972 DOLLARS							
Construction Simulation	179.2	183.8	187.4	191.4	197.0	202.5	208.6
DRI Forecast	179.2	183.7	187.1	191.0	196.6	202.2	208.3
Difference	0.0	0.1	0.2	0.3	0.4	0.3	0.3
% Difference	0.0	0.0	0.1	0.2	0.2	0.2	0.2
IMPLICIT PRICE DEFLATOR – GROSS NATIONAL PRODUCT							
Construction Simulation	2.2	2.4	2.5	2.6	2.8	3.0	3.1
DRI Forecast	2.2	2.4	2.5	2.6	2.8	2.9	3.1
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.3	0.4	0.4	0.3
IMPLICIT PRICE DEFLATOR – PERSONAL CONSUMPTION EXPENDITURES							
Construction Simulation	2.2	2.3	2.5	2.6	2.7	2.9	3.1
DRI Forecast	2.2	2.3	2.5	2.6	2.7	2.9	3.1
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.1	0.2	0.3	0.3	0.2
CONSUMER PRICE INDEX (ALL URBAN) – ALL ITEMS							
Construction Simulation	3.1	3.3	3.5	3.7	3.9	4.1	4.4
DRI Forecast	3.1	3.3	3.5	3.7	3.9	4.1	4.4
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.1	0.2	0.3	0.3	0.3
WHOLESALE PRICE INDEX – ALL COMMODITIES							
Construction Simulation	3.2	3.3	3.6	3.8	4.0	4.2	4.5
DRI Forecast	3.2	3.3	3.6	3.8	4.0	4.2	4.5
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.2	0.3	0.5	0.5	0.4
WHOLESALE PRICE INDEX – INDUSTRIAL COMMODITIES							
Construction Simulation	3.3	3.5	3.7	3.9	4.2	4.4	4.7
DRI Forecast	3.3	3.5	3.7	3.9	4.2	4.4	4.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.2	0.3	0.4	0.5	0.4

APPENDIX A

	1984	1985	1986	1987	1988	1989	1990
INDEX OF HOURLY EARNINGS OF PRODUCTION WORKERS – PRIVATE NONFARM							
Construction Simulation	3.2	3.4	3.6	3.8	4.1	4.4	4.7
DRI Forecast	3.2	3.4	3.6	3.8	4.1	4.4	4.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.3	0.4	0.5	0.5
OUTPUT PER HOUR OF ALL PERSONS INDEX – NONFARM BUSINESS SECTOR							
Construction Simulation	1.1	1.1	1.1	1.1	1.1	1.2	1.2
DRI Forecast	1.1	1.1	1.1	1.1	1.1	1.1	1.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.0	0.0	0.0	0.2	0.4
INDUSTRIAL PRODUCTION INDEX – TOTAL							
Construction Simulation	1.6	1.7	1.8	1.8	1.9	1.9	2.0
DRI Forecast	1.6	1.7	1.7	1.8	1.9	1.9	2.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.3	0.2	0.2	0.1	0.1
HOUSING STARTS, PRIVATE INCL. FARM – TOTAL							
Construction Simulation	1.8	1.6	1.7	1.9	1.9	1.8	1.8
DRI Forecast	1.8	1.6	1.7	1.9	1.9	1.9	1.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	-0.4	-0.7	-0.6	-0.6	-0.7	-0.8
RETAIL UNIT SALES OF NEW PASSENGER CARS – TOTAL							
Construction Simulation	10.5	10.5	10.6	10.9	11.2	11.5	11.7
DRI Forecast	10.5	10.4	10.6	10.8	11.2	11.5	11.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.4	0.4	0.3	0.2	0.0	0.1
UNEMPLOYMENT RATE – ALL CIVILIAN WORKERS							
Construction Simulation	7.5	7.4	7.5	7.4	7.2	7.2	7.2
DRI Forecast	7.6	7.5	7.6	7.5	7.3	7.2	7.1
Difference	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.1
% Difference	-0.2	-1.4	-1.5	-1.3	-0.6	0.2	0.8
FEDERAL GOVERNMENT SURPLUS OR DEFICIT (-) – NIA BASIS							
Construction Simulation	-181.7	-213.8	-197.0	-194.1	-183.3	-184.5	-176.6
DRI Forecast	-180.0	-207.6	-190.4	-186.3	-174.0	-172.5	-161.6
Difference	-1.7	-6.2	-6.6	-7.8	-9.3	-12.0	-14.9
% Difference	0.9	2.9	3.3	4.0	5.1	6.5	8.5
MONEY STOCK – CURRENCY, DEMAND DEPOSITS, OTHER CHECKABLE DEPOSITS							
Construction Simulation	556.8	590.7	625.9	663.2	701.1	741.8	783.9
DRI Forecast	556.6	590.0	624.5	661.2	698.4	738.9	781.4
Difference	0.2	0.8	1.4	2.0	2.7	2.9	2.6
% Difference	0.0	0.1	0.2	0.3	0.4	0.4	0.3

APPENDIX A

	1984	1985	1986	1987	1988	1989	1990
MONEY STOCK — MNY1B, OVERNIGHT RP'S, OVERNIGHT EURODOLLARS, MMMF.							
Construction Simulation	2,364.1	2,558.2	2,771.1	3,016.3	3,269.8	3,533.4	3,827.3
DRI Forecast	2,363.7	2,557.0	2,769.0	3,013.3	3,265.7	3,528.8	3,822.8
Difference	0.4	1.2	2.1	3.0	4.1	4.6	4.5
% Difference	0.0	0.0	0.1	0.1	0.1	0.1	0.1
AVERAGE YIELD ON NEW ISSUES OF AA-RATED CORPORATE UTILITY BONDS							
Construction Simulation	13.4	13.4	12.3	11.8	11.5	10.9	10.5
DRI Forecast	13.4	13.3	12.2	11.7	11.4	10.9	10.5
Difference	0.0	0.1	0.1	0.1	0.1	0.1	0.0
% Difference	0.0	0.4	0.7	0.8	0.9	0.7	0.2
AVERAGE YIELD ON NEW ISSUES OF HIGH-GRADE CORPORATE BONDS							
Construction Simulation	12.8	12.9	11.8	11.3	11.0	10.5	10.1
DRI Forecast	12.8	12.8	11.7	11.2	10.9	10.4	10.0
Difference	0.0	0.1	0.1	0.1	0.1	0.1	0.0
% Difference	0.0	0.4	0.7	0.8	0.8	0.7	0.2
EFFECTIVE RATE ON FEDERAL FUNDS							
Construction Simulation	10.0	10.6	9.6	9.0	8.6	8.5	8.1
DRI Forecast	10.0	10.5	9.4	8.8	8.3	8.2	7.8
Difference	0.0	0.1	0.2	0.2	0.2	0.3	0.3
% Difference	0.1	1.1	1.6	2.2	2.6	3.3	3.2
AVG. MARKET YIELD ON U.S. GOVT 3-MONTH BILLS							
Construction Simulation	9.6	10.0	9.2	8.6	8.1	8.0	7.5
DRI Forecast	9.6	9.9	9.1	8.4	7.9	7.8	7.3
Difference	0.0	0.1	0.1	0.2	0.2	0.2	0.2
% Difference	0.1	1.1	1.4	1.8	2.1	2.6	2.7
PRIME RATE ON SHORT-TERM BUSINESS LOANS							
Construction Simulation	11.8	12.8	11.3	10.7	10.2	10.1	9.7
DRI Forecast	11.8	12.7	11.2	10.5	10.0	9.9	9.5
Difference	0.0	0.1	0.1	0.1	0.2	0.2	0.2
% Difference	0.1	0.8	1.1	1.4	1.6	2.1	2.0
PERSONAL INCOME							
Construction Simulation	2,997.3	3,236.7	3,505.4	3,824.1	4,164.4	4,539.6	4,939.9
DRI Forecast	2,996.1	3,226.7	3,488.9	3,801.2	4,134.6	4,506.3	4,907.0
Difference	1.2	10.0	16.5	22.9	29.7	33.3	32.9
% Difference	0.0	0.3	0.5	0.6	0.7	0.7	0.7
DISPOSABLE PERSONAL INCOME — 1972 DOLLARS							
Construction Simulation	1,157.0	1,189.1	1,211.2	1,248.5	1,282.3	1,318.5	1,352.1
DRI Forecast	1,156.6	1,186.0	1,207.2	1,243.9	1,277.2	1,313.4	1,346.6
Difference	0.4	3.1	4.0	4.6	5.0	5.1	5.5
% Difference	0.0	0.3	0.3	0.4	0.4	0.4	0.4

APPENDIX A

	1984	1985	1986	1987	1988	1989	1990
PERSONAL SAVINGS AS PERCENT OF DISPOSABLE PERSONAL INCOME							
Construction Simulation	5.6	5.6	5.2	5.4	5.1	5.1	4.9
DRI Forecast	5.5	5.5	5.1	5.3	5.0	4.9	4.7
Difference	0.0	0.1	0.1	0.2	0.2	0.2	0.1
% Difference	0.6	2.1	2.6	2.8	3.3	3.2	2.9
CORPORATE PROFITS AFTER TAX EXCLUDING INVENTORY VALUATION ADJUSTMENT							
Construction Simulation	150.4	156.4	168.9	191.6	205.4	218.9	236.2
DRI Forecast	149.9	154.4	166.8	189.5	203.1	216.4	234.1
Difference	0.6	2.0	2.1	2.1	2.3	2.5	2.0
% Difference	0.4	1.3	1.2	1.1	1.1	1.2	0.9
CORPORATE PROFITS BEFORE TAX AS A PERCENT OF GNP							
Construction Simulation	6.7	6.4	6.4	6.6	6.4	6.2	6.1
DRI Forecast	6.7	6.3	6.3	6.6	6.4	6.2	6.0
Difference	0.0	0.1	0.1	0.1	0.1	0.1	0.0
% Difference	0.4	1.3	1.2	0.9	0.8	0.9	0.6
NONRESIDENTIAL FIXED INVESTMENT AS A PERCENT OF GNP							
Construction Simulation	11.0	11.4	11.7	12.0	12.2	12.3	12.4
DRI Forecast	11.0	11.4	11.7	12.0	12.2	12.3	12.4
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	-0.1	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1

APPENDIX A
EMPLOYMENT BY INDUSTRY

	1984	1985	1986	1987	1988	1989	1990
TOTAL EMPLOYMENT – HOUSEHOLD SURVEY BASIS (CIVILIAN)							
Construction Simulation	105.0	107.5	109.4	111.4	113.3	114.9	116.3
DRI Forecast	105.0	107.3	109.1	111.1	113.0	114.5	115.9
Difference	0.0	0.2	0.2	0.3	0.3	0.4	0.4
% Difference	0.0	0.2	0.2	0.3	0.3	0.3	0.3
TOTAL EMPLOYMENT – NONAGRICULTURAL ESTABLISHMENTS							
Construction Simulation	93.3	95.8	98.1	100.4	102.4	104.3	105.8
DRI Forecast	93.3	95.7	97.9	100.1	102.0	103.9	105.3
Difference	0.0	0.1	0.2	0.3	0.4	0.4	0.5
% Difference	0.0	0.1	0.2	0.3	0.4	0.4	0.4
TOTAL EMPLOYMENT – PRIVATE NONAGRICULTURAL ESTABLISHMENTS							
Construction Simulation	77.5	79.9	81.9	83.8	85.4	86.9	87.9
DRI Forecast	77.5	79.7	81.7	83.6	85.1	86.5	87.5
Difference	0.0	0.1	0.2	0.3	0.3	0.4	0.4
% Difference	0.0	0.1	0.3	0.3	0.4	0.4	0.5
TOTAL EMPLOYMENT – CONTRACT CONSTRUCTION							
Construction Simulation	4.3	4.7	4.9	5.3	5.5	5.7	5.8
DRI Forecast	4.3	4.6	4.8	5.1	5.3	5.5	5.5
Difference	0.0	0.1	0.1	0.2	0.2	0.3	0.3
% Difference	0.1	1.4	2.5	3.2	3.9	4.4	5.0
TOTAL EMPLOYMENT – FINANCE, INSURANCE AND REAL ESTATE							
Construction Simulation	5.6	5.8	6.1	6.3	6.5	6.7	6.9
DRI Forecast	5.6	5.8	6.1	6.3	6.5	6.7	6.9
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.0	0.1	0.1	0.1	0.1
TOTAL EMPLOYMENT – MINING							
Construction Simulation	1.0	1.0	1.0	1.0	1.0	1.0	1.0
DRI Forecast	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.2	0.3	0.3	0.2	0.2	0.2
TOTAL EMPLOYMENT – TRANSPORTATION AND PUBLIC UTILITIES							
Construction Simulation	5.1	5.1	5.2	5.1	5.1	5.0	5.0
DRI Forecast	5.1	5.1	5.2	5.1	5.0	5.0	5.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.2	0.2	0.2	0.2
TOTAL EMPLOYMENT – SERVICES							
Construction Simulation	20.5	21.2	21.9	22.6	23.1	23.6	23.9
DRI Forecast	20.5	21.2	21.9	22.5	23.1	23.6	23.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.1	0.1	0.2	0.2	0.2

APPENDIX A

	1984	1985	1986	1987	1988	1989	1990
TOTAL EMPLOYMENT – WHOLESALE AND RETAIL TRADE							
Construction Simulation	21.2	21.9	22.5	23.1	23.6	24.1	24.5
DRI Forecast	21.2	21.9	22.5	23.1	23.6	24.1	24.5
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.1
% Difference	0.0	0.0	0.1	0.1	0.2	0.2	0.2
TOTAL EMPLOYMENT – FEDERAL GOVERNMENT							
Construction Simulation	2.8	2.9	3.0	3.0	3.1	3.2	3.2
DRI Forecast	2.8	2.9	3.0	3.0	3.1	3.2	3.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.4	0.4	0.4	0.4	0.3
TOTAL EMPLOYMENT – STATE AND LOCAL GOVERNMENT							
Construction Simulation	13.0	13.1	13.2	13.5	13.9	14.2	14.6
DRI Forecast	13.0	13.0	13.2	13.5	13.8	14.2	14.6
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.1	0.1	0.1	0.1
DEFENSE DEPARTMENT MANPOWER – MILITARY							
Construction Simulation	2.2	2.2	2.2	2.3	2.3	2.4	2.4
DRI Forecast	2.2	2.2	2.2	2.3	2.3	2.4	2.4
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL EMPLOYMENT – ALL MANUFACTURING							
Construction Simulation	19.8	20.1	20.3	20.5	20.6	20.7	20.8
DRI Forecast	19.8	20.1	20.3	20.4	20.5	20.7	20.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.2	0.1	0.1	0.1
TOTAL EMPLOYMENT – NONDURABLE MANUFACTURING							
Construction Simulation	8.0	8.1	8.1	8.1	8.1	8.1	8.1
DRI Forecast	8.0	8.1	8.1	8.1	8.1	8.1	8.1
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.2	0.2	0.1	0.1
TOTAL EMPLOYMENT – FOOD AND PRODUCTS							
Construction Simulation	1.6	1.7	1.7	1.6	1.6	1.6	1.6
DRI Forecast	1.6	1.7	1.6	1.6	1.6	1.6	1.6
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.1	0.1	0.1	0.1
TOTAL EMPLOYMENT – TOBACCO MANUFACTURES							
Construction Simulation	0.1	0.1	0.1	0.1	0.1	0.1	0.1
DRI Forecast	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0

APPENDIX A

	1984	1985	1986	1987	1988	1989	1990
TOTAL EMPLOYMENT — TEXTILE MILL PRODUCTS							
Construction Simulation	0.8	0.8	0.8	0.8	0.8	0.8	0.8
DRI Forecast	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.3	0.3	0.3	0.2	0.1
TOTAL EMPLOYMENT — APPAREL AND PRODUCTS							
Construction Simulation	1.2	1.2	1.2	1.2	1.2	1.2	1.2
DRI Forecast	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.3	0.3	0.3	0.3
TOTAL EMPLOYMENT — PAPER AND PRODUCTS							
Construction Simulation	0.7	0.7	0.7	0.7	0.7	0.7	0.7
DRI Forecast	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.1	0.0	0.0	0.0
TOTAL EMPLOYMENT — CHEMICALS AND PRODUCTS							
Construction Simulation	1.1	1.1	1.1	1.1	1.1	1.1	1.1
DRI Forecast	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.2	0.2	0.1	0.1
TOTAL EMPLOYMENT — PRINTING AND PUBLISHING							
Construction Simulation	1.3	1.3	1.4	1.4	1.4	1.4	1.4
DRI Forecast	1.3	1.3	1.4	1.4	1.4	1.4	1.4
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.1	0.1	0.2	0.2	0.2
TOTAL EMPLOYMENT — PETROLEUM AND PRODUCTS							
Construction Simulation	0.2	0.2	0.2	0.2	0.2	0.2	0.2
DRI Forecast	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL EMPLOYMENT — RUBBER AND MISCELLANEOUS PLASTICS							
Construction Simulation	0.8	0.8	0.8	0.8	0.8	0.8	0.9
DRI Forecast	0.8	0.8	0.8	0.8	0.8	0.8	0.9
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.3	0.3	0.2	0.1	0.0
TOTAL EMPLOYMENT — LEATHER AND PRODUCTS							
Construction Simulation	0.2	0.2	0.2	0.2	0.2	0.2	0.2
DRI Forecast	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.1	0.2	0.1	0.2

APPENDIX A

	1984	1985	1986	1987	1988	1989	1990
TOTAL EMPLOYMENT – DURABLE MANUFACTURING							
Construction Simulation	11.8	12.1	12.2	12.4	12.5	12.6	12.7
DRI Forecast	11.8	12.1	12.2	12.4	12.5	12.6	12.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.2	0.2	0.1	0.1	0.1
TOTAL EMPLOYMENT – LUMBER AND PRODUCTS							
Construction Simulation	0.7	0.7	0.7	0.7	0.8	0.8	0.8
DRI Forecast	0.7	0.7	0.7	0.7	0.8	0.8	0.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	-0.1	-0.4	-0.4	0.4	0.5	0.6
TOTAL EMPLOYMENT – FURNITURE AND FIXTURES							
Construction Simulation	0.5	0.5	0.5	0.5	0.5	0.5	0.5
DRI Forecast	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.2	0.2	0.2	0.2
TOTAL EMPLOYMENT – STONE, CLAY AND GLASS							
Construction Simulation	0.6	0.6	0.6	0.7	0.7	0.7	0.7
DRI Forecast	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.1	0.1	0.0	0.0
TOTAL EMPLOYMENT – PRIMARY METAL INDUSTRIES							
Construction Simulation	0.9	0.9	0.9	0.9	0.9	0.9	0.9
DRI Forecast	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.3	0.2	0.1	0.0	0.0
TOTAL EMPLOYMENT – FABRICATED METAL PRODUCTS							
Construction Simulation	1.5	1.5	1.5	1.5	1.6	1.6	1.6
DRI Forecast	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Difference	0.0	0.0	0.0	0.0	0.0	0.0	-0.0
% Difference	0.0	0.1	0.1	0.1	0.1	0.1	0.0
TOTAL EMPLOYMENT – MACHINERY EXCEPT ELECTRICAL							
Construction Simulation	2.3	2.3	2.4	2.4	2.6	2.6	2.7
DRI Forecast	2.3	2.3	2.4	2.4	2.5	2.6	2.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.3	0.2	0.2	0.2	0.1
TOTAL EMPLOYMENT – ELECTRICAL MACHINERY							
Construction Simulation	2.2	2.3	2.3	2.3	2.3	2.3	2.3
DRI Forecast	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Difference	0.0	0.0	0.0	0.0	0.0	-0.0	0.0
% Difference	0.0	0.3	0.4	0.3	0.2	0.2	0.2

APPENDIX A
EMPLOYMENT BY INDUSTRY

	1984	1985	1986	1987	1988	1989	1990
TOTAL EMPLOYMENT – TRANSPORTATION EQUIPMENT							
Construction Simulation	2.0	2.0	2.0	2.0	2.0	2.0	2.0
DRI Forecast	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.1	0.1	0.0	0.1
TOTAL EMPLOYMENT – INSTRUMENTS							
Construction Simulation	0.7	0.7	0.8	0.8	0.8	0.8	0.8
DRI Forecast	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.2	0.2	0.2	0.2
TOTAL EMPLOYMENT – MISCELLANEOUS MANUFACTURING							
Construction Simulation	0.4	0.4	0.4	0.4	0.4	0.4	0.4
DRI Forecast	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.2	0.2	0.2	0.3

APPENDIX A
INDUSTRIAL PRODUCTION

	1984	1985	1986	1987	1988	1989	1990
INDUSTRIAL PRODUCTION INDEX – TOTAL							
Construction Simulation	1.6	1.7	1.8	1.8	1.9	1.9	2.0
DRI Forecast	1.6	1.7	1.7	1.8	1.9	1.9	2.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.3	0.2	0.2	0.1	0.1
INDUSTRIAL PRODUCTION INDEX – TOTAL PRODUCTS							
Construction Simulation	1.6	1.7	1.8	1.8	1.9	2.0	2.0
DRI Forecast	1.6	1.7	1.8	1.8	1.9	1.9	2.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.2	0.2	0.2	0.2	0.2
INDUSTRIAL PRODUCTION INDEX – FINAL PRODUCTS							
Construction Simulation	1.6	1.7	1.7	1.8	1.9	1.9	2.0
DRI Forecast	1.6	1.7	1.7	1.8	1.9	1.9	2.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.2	0.2	0.2	0.2	0.2
INDUSTRIAL PRODUCTION INDEX – CONSUMER GOODS							
Construction Simulation	1.6	1.7	1.7	1.8	1.8	1.9	1.9
DRI Forecast	1.6	1.7	1.7	1.8	1.8	1.9	1.9
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.2	0.2	0.2	0.1	0.2
INDUSTRIAL PRODUCTION INDEX – BUSINESS EQUIPMENT							
Construction Simulation	1.8	1.9	2.0	2.1	2.2	2.3	2.4
DRI Forecast	1.8	1.9	2.0	2.1	2.2	2.3	2.4
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.3	0.3	0.3	0.3	0.2	0.2
INDUSTRIAL PRODUCTION INDEX – DEFENSE AND SPACE EQUIPMENT							
Construction Simulation	1.3	1.3	1.4	1.5	1.5	1.6	1.6
DRI Forecast	1.3	1.3	1.4	1.5	1.5	1.6	1.6
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.4	0.4	0.3	0.3	0.3	0.3
INDUSTRIAL PRODUCTION INDEX – INTERMEDIATE PRODUCTS							
Construction Simulation	1.7	1.7	1.8	1.9	1.9	2.0	2.1
DRI Forecast	1.7	1.7	1.8	1.9	1.9	2.0	2.1
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.2	0.2	0.2	0.2	0.1
INDUSTRIAL PRODUCTION INDEX – MATERIALS							
Construction Simulation	1.6	1.7	1.7	1.8	1.9	1.9	2.0
DRI Forecast	1.6	1.7	1.7	1.8	1.9	1.9	2.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.4	0.4	0.3	0.2	0.1	0.1

APPENDIX A
INDUSTRIAL PRODUCTION

	1984	1985	1986	1987	1988	1989	1990
INDUSTRIAL PRODUCTION INDEX – ALL MANUFACTURING							
Construction Simulation	1.6	1.7	1.8	1.8	1.9	2.0	2.1
DRI Forecast	1.6	1.7	1.8	1.8	1.9	2.0	2.1
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.3	0.2	0.2	0.1	0.1
INDUSTRIAL PRODUCTION INDEX – DURABLE MANUFACTURING							
Construction Simulation	1.5	1.6	1.7	1.7	1.8	1.9	2.0
DRI Forecast	1.5	1.6	1.7	1.7	1.8	1.9	2.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.3	0.3	0.2	0.2	0.1	0.1
INDUSTRIAL PRODUCTION INDEX – NONDURABLE MANUFACTURING							
Construction Simulation	1.8	1.9	1.9	2.0	2.1	2.1	2.2
DRI Forecast	1.8	1.9	1.9	2.0	2.1	2.1	2.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.3	0.2	0.2	0.1	0.1
INDUSTRIAL PRODUCTION INDEX – PRIMARY PROCESSING INDUSTRIES							
Construction Simulation	1.6	1.7	1.8	1.8	1.9	2.0	2.0
DRI Forecast	1.6	1.7	1.8	1.8	1.9	2.0	2.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.2	0.2	0.1	0.0	0.0
INDUSTRIAL PRODUCTION INDEX – ADVANCED PROCESSING INDUSTRIES							
Construction Simulation	1.7	1.7	1.8	1.9	1.9	2.0	2.1
DRI Forecast	1.7	1.7	1.8	1.9	1.9	2.0	2.1
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.3	0.3	0.2	0.2	0.2
INDUSTRIAL PRODUCTION INDEX – UTILITIES							
Construction Simulation	1.8	1.8	1.9	1.9	2.0	2.0	2.0
DRI Forecast	1.8	1.8	1.9	1.9	2.0	2.0	2.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.2	0.2	0.2	0.2
INDUSTRIAL PRODUCTION INDEX – MINING							
Construction Simulation	1.3	1.3	1.3	1.3	1.3	1.3	1.3
DRI Forecast	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.2	0.2	0.2	0.2	0.2
INDUSTRIAL PRODUCTION INDEX – OIL AND GAS EXTRACTION							
Construction Simulation	1.2	1.2	1.3	1.2	1.2	1.2	1.2
DRI Forecast	1.2	1.2	1.3	1.2	1.2	1.2	1.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0

APPENDIX A
INDUSTRIAL PRODUCTION

	1984	1985	1986	1987	1988	1989	1990
INDUSTRIAL PRODUCTION INDEX – MINING EXCEPT OIL AND GAS							
Construction Simulation	1.4	1.4	1.5	1.5	1.5	1.6	1.6
DRI Forecast	1.4	1.4	1.4	1.5	1.5	1.6	1.6
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.2	0.1	0.1	0.1	0.0	0.0
INDUSTRIAL PRODUCTION INDEX – ORDNANCE, PRIVATE AND GOVERNMENT							
Construction Simulation	1.0	1.1	1.1	1.2	1.3	1.3	1.3
DRI Forecast	1.0	1.1	1.1	1.2	1.3	1.3	1.3
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.1
INDUSTRIAL PRODUCTION INDEX – FOODS							
Construction Simulation	1.6	1.7	1.7	1.7	1.8	1.8	1.9
DRI Forecast	1.6	1.7	1.7	1.7	1.8	1.8	1.9
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.1	0.1	0.1	0.1
INDUSTRIAL PRODUCTION INDEX – TOBACCO PRODUCTS							
Construction Simulation	1.2	1.2	1.2	1.2	1.2	1.2	1.2
DRI Forecast	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.1	0.2	0.2	0.2
INDUSTRIAL PRODUCTION INDEX – TEXTILE MILL PRODUCTS							
Construction Simulation	1.5	1.5	1.6	1.6	1.7	1.7	1.8
DRI Forecast	1.5	1.5	1.6	1.6	1.7	1.7	1.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.4	0.5	0.4	0.3	0.2	0.2
INDUSTRIAL PRODUCTION INDEX – APPAREL PRODUCTS							
Construction Simulation	1.3	1.4	1.4	1.5	1.5	1.5	1.5
DRI Forecast	1.3	1.4	1.4	1.5	1.5	1.5	1.5
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.4	0.3	0.3	0.3	0.3
INDUSTRIAL PRODUCTION INDEX – LUMBER AND PRODUCTS							
Construction Simulation	1.5	1.5	1.5	1.6	1.7	1.7	1.7
DRI Forecast	1.5	1.5	1.5	1.6	1.7	1.7	1.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	-0.2	0.4	-0.4	0.5	0.5	-0.6
INDUSTRIAL PRODUCTION INDEX – FURNITURE AND FIXTURES							
Construction Simulation	1.9	1.9	1.9	2.0	2.1	2.1	2.2
DRI Forecast	1.9	1.9	1.9	2.0	2.1	2.1	2.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.2	0.2	0.2	0.2

APPENDIX A
INDUSTRIAL PRODUCTION

	1984	1985	1986	1987	1988	1989	1990
INDUSTRIAL PRODUCTION INDEX – HOUSEHOLD FURNITURE							
Construction Simulation	1.8	1.9	1.9	2.0	2.0	2.1	2.1
DRI Forecast	1.8	1.9	1.9	2.0	2.0	2.1	2.1
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.2	0.2	0.3	0.3	0.3
INDUSTRIAL PRODUCTION INDEX – FIXTURES AND OFFICE FURNITURE							
Construction Simulation	2.0	2.1	2.1	2.2	2.3	2.3	2.4
DRI Forecast	2.0	2.1	2.1	2.2	2.3	2.3	2.4
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.1	0.1	0.1	0.1
INDUSTRIAL PRODUCTION INDEX – PAPER AND PRODUCTS							
Construction Simulation	1.8	1.8	1.9	1.9	1.9	2.0	2.0
DRI Forecast	1.8	1.8	1.9	1.9	1.9	2.0	2.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.1	0.1	0.0	0.1
INDUSTRIAL PRODUCTION INDEX – PRINTING AND PUBLISHING							
Construction Simulation	1.7	1.7	1.7	1.8	1.8	1.9	1.9
DRI Forecast	1.7	1.7	1.7	1.8	1.8	1.9	1.9
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.3	0.3	0.3	0.2	0.2
INDUSTRIAL PRODUCTION INDEX – CHEMICALS AND PRODUCTS							
Construction Simulation	2.3	2.4	2.5	2.6	2.7	2.9	3.0
DRI Forecast	2.3	2.4	2.5	2.6	2.7	2.9	3.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.3	0.3	0.2	0.1	0.1
INDUSTRIAL PRODUCTION INDEX – BASIC CHEMICALS							
Construction Simulation	2.0	2.0	2.1	2.2	2.3	2.4	2.5
DRI Forecast	2.0	2.0	2.1	2.2	2.2	2.4	2.5
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.2	0.2	0.1	0.0	0.1
INDUSTRIAL PRODUCTION INDEX – SYNTHETIC MATERIALS							
Construction Simulation	3.6	3.8	3.9	4.1	4.4	4.6	4.9
DRI Forecast	3.6	3.8	3.9	4.1	4.3	4.6	4.9
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.5	0.6	0.4	0.3	0.1	0.0
INDUSTRIAL PRODUCTION INDEX – DRUGS AND MEDICINES							
Construction Simulation	2.9	3.0	3.2	3.3	3.5	3.7	4.0
DRI Forecast	2.9	3.0	3.2	3.3	3.5	3.7	4.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.2	0.2	0.2	0.2

APPENDIX A
INDUSTRIAL PRODUCTION

	1984	1985	1986	1987	1988	1989	1990
INDUSTRIAL PRODUCTION INDEX — SOAPS AND TOILETRIES							
Construction Simulation	1.9	1.9	2.0	2.0	2.1	2.2	2.2
DRI Forecast	1.9	1.9	2.0	2.0	2.1	2.2	2.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.2	0.2	0.2	0.2
INDUSTRIAL PRODUCTION INDEX — PAINTS							
Construction Simulation	1.3	1.4	1.4	1.4	1.5	1.5	1.6
DRI Forecast	1.3	1.4	1.4	1.4	1.5	1.5	1.6
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.5	0.5	0.5	0.5	0.4	0.4
INDUSTRIAL PRODUCTION INDEX — AGRICULTURAL CHEMICALS							
Construction Simulation	2.2	2.4	2.6	2.7	2.9	3.0	3.2
DRI Forecast	2.2	2.4	2.6	2.7	2.9	3.0	3.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.2	0.2	0.1	0.1	0.1
INDUSTRIAL PRODUCTION INDEX — PETROLEUM PRODUCTS							
Construction Simulation	1.3	1.4	1.4	1.4	1.5	1.5	1.5
DRI Forecast	1.3	1.4	1.4	1.4	1.5	1.5	1.5
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.2	0.2	0.2	0.2	0.2
INDUSTRIAL PRODUCTION INDEX — RUBBER AND PLASTICS PRODUCTS							
Construction Simulation	3.3	3.5	3.7	3.9	4.1	4.4	4.6
DRI Forecast	3.3	3.5	3.7	3.9	4.1	4.4	4.6
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.4	0.3	0.2	0.0	0.0
INDUSTRIAL PRODUCTION INDEX — TIRES							
Construction Simulation	1.5	1.6	1.6	1.7	1.8	1.9	2.0
DRI Forecast	1.5	1.6	1.6	1.7	1.8	1.9	2.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.2	0.1	-0.1	-0.2	-0.1
INDUSTRIAL PRODUCTION INDEX — RUBBER PRODUCTS EXCEPT TIRES							
Construction Simulation	1.5	1.6	1.6	1.6	1.6	1.7	1.7
DRI Forecast	1.5	1.6	1.6	1.6	1.6	1.7	1.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	-0.1	-0.1	0.0	0.0	0.1	-0.1	0.0
INDUSTRIAL PRODUCTION INDEX — PLASTICS PRODUCTS, NEC							
Construction Simulation	5.6	6.0	6.4	6.8	7.3	7.7	8.1
DRI Forecast	5.6	5.9	6.3	6.8	7.3	7.7	8.1
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.4	0.5	0.4	0.3	0.1	0.0

APPENDIX A
INDUSTRIAL PRODUCTION

	1984	1985	1986	1987	1988	1989	1990
INDUSTRIAL PRODUCTION INDEX – LEATHER AND PRODUCTS							
Construction Simulation	0.6	0.6	0.6	0.6	0.6	0.6	0.6
DRI Forecast	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.3	0.2	0.3	0.2	0.3
INDUSTRIAL PRODUCTION INDEX – CLAY, GLASS AND STONE PRODUCTS							
Construction Simulation	1.6	1.7	1.7	1.8	1.9	1.9	2.0
DRI Forecast	1.6	1.7	1.7	1.8	1.9	1.9	2.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.1	0.1	0.0	0.0
INDUSTRIAL PRODUCTION INDEX – GLASS AND GLASS PRODUCTS							
Construction Simulation	1.7	1.8	1.9	2.0	2.1	2.2	2.3
DRI Forecast	1.7	1.8	1.9	2.0	2.1	2.2	2.3
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.1	0.1	0.1	0.0	0.1
INDUSTRIAL PRODUCTION INDEX – CEMENT AND STRUCTURAL CLAY PRODUCTS							
Construction Simulation	1.2	1.2	1.2	1.2	1.3	1.3	1.3
DRI Forecast	1.2	1.2	1.2	1.2	1.3	1.3	1.3
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.0	0.0	0.0	0.1	0.2
INDUSTRIAL PRODUCTION INDEX – CONCRETE AND MISCELLANEOUS CLAY PRODUCTS							
Construction Simulation	1.8	1.7	1.8	1.9	1.9	2.0	2.0
DRI Forecast	1.8	1.7	1.8	1.9	1.9	2.0	2.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.1	0.1	0.0	0.1
INDUSTRIAL PRODUCTION INDEX – PRIMARY METALS							
Construction Simulation	1.0	1.1	1.1	1.1	1.1	1.2	1.2
DRI Forecast	1.0	1.0	1.1	1.1	1.1	1.2	1.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.5	0.4	0.3	0.2	0.0	0.0
INDUSTRIAL PRODUCTION INDEX – IRON AND STEEL							
Construction Simulation	0.9	0.9	1.0	1.0	1.0	1.0	1.1
DRI Forecast	0.9	0.9	0.9	1.0	1.0	1.0	1.1
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.2	0.9	0.8	0.7	0.6	0.4	0.4
INDUSTRIAL PRODUCTION INDEX – NONFERROUS METALS							
Construction Simulation	1.2	1.3	1.3	1.3	1.3	1.4	1.4
DRI Forecast	1.2	1.3	1.3	1.3	1.3	1.4	1.5
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.2	0.3	0.4	0.5	0.5

APPENDIX A
INDUSTRIAL PRODUCTION

	1984	1985	1986	1987	1988	1989	1990
INDUSTRIAL PRODUCTION INDEX – BASIC STEEL AND MILL PRODUCTS							
Construction Simulation	0.9	1.0	1.0	1.0	1.0	1.1	1.1
DRI Forecast	0.9	1.0	1.0	1.0	1.0	1.1	1.1
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.2	0.9	0.9	0.8	0.6	0.4	0.4
INDUSTRIAL PRODUCTION INDEX – IRON AND STEEL FOUNDRIES							
Construction Simulation	0.8	0.8	0.9	0.9	0.9	0.9	0.9
DRI Forecast	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.6	0.6	0.5	0.4	0.2	0.3
INDUSTRIAL PRODUCTION INDEX – FABRICATED METAL PRODUCTS							
Construction Simulation	1.4	1.4	1.4	1.5	1.6	1.6	1.7
DRI Forecast	1.4	1.4	1.4	1.5	1.6	1.6	1.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.1	0.1	0.0	0.0
INDUSTRIAL PRODUCTION INDEX – METAL CANS							
Construction Simulation	1.2	1.3	1.3	1.3	1.4	1.4	1.5
DRI Forecast	1.2	1.3	1.3	1.3	1.4	1.4	1.4
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.4	0.3	0.2	0.1	0.1
INDUSTRIAL PRODUCTION INDEX – HARDWARE, PLUMBING, STRUCTURAL METAL							
Construction Simulation	1.4	1.4	1.5	1.6	1.7	1.7	1.8
DRI Forecast	1.4	1.4	1.5	1.6	1.7	1.7	1.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.0	0.1	0.1	0.0	-0.1
INDUSTRIAL PRODUCTION INDEX – OTHER FABRICATED METAL PRODUCTS							
Construction Simulation	1.4	1.4	1.4	1.4	1.5	1.6	1.6
DRI Forecast	1.4	1.4	1.4	1.4	1.5	1.6	1.6
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.1	0.1	0.1	0.1
INDUSTRIAL PRODUCTION INDEX – NONELECTRICAL MACHINERY							
Construction Simulation	1.8	1.9	2.0	2.1	2.2	2.3	2.4
DRI Forecast	1.8	1.9	2.0	2.1	2.2	2.3	2.4
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.3	0.3	0.3	0.3	0.2	0.2
INDUSTRIAL PRODUCTION INDEX – ENGINE AND FARM EQUIPMENT							
Construction Simulation	1.2	1.3	1.4	1.4	1.5	1.6	1.6
DRI Forecast	1.2	1.3	1.4	1.4	1.5	1.6	1.6
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.0	0.0	0.0	0.2	-0.3

APPENDIX A
INDUSTRIAL PRODUCTION

	1984	1985	1986	1987	1988	1989	1990
INDUSTRIAL PRODUCTION INDEX – FARM EQUIPMENT							
Construction Simulation	0.8	0.9	1.0	1.0	1.0	1.1	1.1
DRI Forecast	0.8	0.9	1.0	1.0	1.0	1.1	1.1
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.4	0.4	0.4	0.2	0.0	0.3
INDUSTRIAL PRODUCTION INDEX – CONSTRUCTION AND ALLIED EQUIPMENT							
Construction Simulation	1.2	1.4	1.5	1.6	1.7	1.8	1.9
DRI Forecast	1.2	1.4	1.5	1.6	1.7	1.8	1.9
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.2	0.6	0.6	0.5	0.5	0.4	0.3
INDUSTRIAL PRODUCTION INDEX – METALWORKING MACHINERY							
Construction Simulation	1.2	1.2	1.3	1.3	1.4	1.5	1.5
DRI Forecast	1.2	1.2	1.3	1.3	1.4	1.5	1.5
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
INDUSTRIAL PRODUCTION INDEX – SPECIAL & GENERAL INDUSTRIAL EQUIPMENT							
Construction Simulation	1.2	1.3	1.3	1.4	1.4	1.4	1.5
DRI Forecast	1.2	1.3	1.3	1.4	1.4	1.4	1.5
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.0	0.0	0.1	0.1
INDUSTRIAL PRODUCTION INDEX – OFFICE, SERVICE, & MISC. EQUIPMENT							
Construction Simulation	3.2	3.4	3.5	3.7	3.9	4.2	4.4
DRI Forecast	3.2	3.4	3.5	3.7	3.9	4.1	4.4
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.5	0.5	0.5	0.4	0.4	0.3
INDUSTRIAL PRODUCTION INDEX – ELECTRICAL MACHINERY							
Construction Simulation	2.2	2.3	2.4	2.5	2.5	2.6	2.8
DRI Forecast	2.2	2.3	2.3	2.5	2.5	2.6	2.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.5	0.5	0.4	0.4	0.3	0.3
INDUSTRIAL PRODUCTION INDEX – MAJOR ELECTRICAL EQUIPMENT AND PARTS							
Construction Simulation	1.3	1.4	1.5	1.6	1.6	1.7	1.8
DRI Forecast	1.3	1.4	1.5	1.6	1.6	1.7	1.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	0.0	0.0	0.1	0.1
INDUSTRIAL PRODUCTION INDEX – HOUSEHOLD APPLIANCES							
Construction Simulation	1.6	1.6	1.6	1.6	1.7	1.7	1.8
DRI Forecast	1.6	1.6	1.6	1.6	1.7	1.7	1.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.1	0.1	0.2	0.1	0.1

APPENDIX A
INDUSTRIAL PRODUCTION

	1984	1985	1986	1987	1988	1989	1990
INDUSTRIAL PRODUCTION INDEX – TELEVISION AND RADIO SETS							
Construction Simulation	1.1	1.2	1.2	1.2	1.2	1.2	1.3
DRI Forecast	1.1	1.2	1.2	1.2	1.2	1.2	1.3
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.2	0.2	0.2	0.2	0.3
INDUSTRIAL PRODUCTION INDEX – COMMUNICATION EQUIPMENT							
Construction Simulation	2.0	2.1	2.2	2.3	2.4	2.4	2.5
DRI Forecast	2.0	2.1	2.2	2.3	2.3	2.4	2.5
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.2	0.8	0.8	0.7	0.7	0.7	0.7
INDUSTRIAL PRODUCTION INDEX – ELECTRONIC COMPONENTS							
Construction Simulation	4.5	4.7	4.8	5.1	5.2	5.4	5.8
DRI Forecast	4.5	4.6	4.8	5.0	5.1	5.4	5.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.6	0.6	0.4	0.4	0.3	0.2
INDUSTRIAL PRODUCTION INDEX – MISCELLANEOUS ELECTRICAL SUPPLIES							
Construction Simulation	2.2	2.3	2.3	2.4	2.5	2.6	2.7
DRI Forecast	2.2	2.3	2.3	2.4	2.5	2.6	2.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.1	0.0	-0.1	-0.2	-0.1
INDUSTRIAL PRODUCTION INDEX – TRANSPORTATION EQUIPMENT							
Construction Simulation	1.4	1.4	1.5	1.5	1.6	1.7	1.7
DRI Forecast	1.4	1.4	1.5	1.5	1.6	1.7	1.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.2	0.1	0.1	0.0	0.1
INDUSTRIAL PRODUCTION INDEX – MOTOR VEHICLES AND PARTS							
Construction Simulation	1.7	1.7	1.7	1.8	1.9	1.9	2.0
DRI Forecast	1.7	1.7	1.7	1.8	1.9	1.9	2.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.2	0.1	0.0	-0.1	0.1
INDUSTRIAL PRODUCTION INDEX – AUTOS							
Construction Simulation	1.4	1.4	1.4	1.5	1.6	1.6	1.7
DRI Forecast	1.4	1.4	1.4	1.5	1.6	1.6	1.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.2	0.1	-0.1	-0.2	0.0
INDUSTRIAL PRODUCTION INDEX – MOTOR VEHICLE PARTS							
Construction Simulation	1.7	1.8	1.7	1.8	1.8	1.9	1.9
DRI Forecast	1.7	1.8	1.7	1.8	1.8	1.9	1.9
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.3	0.3	0.2	0.1	0.1	0.2

APPENDIX A
INDUSTRIAL PRODUCTION

	1984	1985	1986	1987	1988	1989	1990
INDUSTRIAL PRODUCTION INDEX – TRUCKS & BUSES & TRUCK TRAILERS							
Construction Simulation	2.3	2.5	2.6	2.6	2.9	3.0	3.2
DRI Forecast	2.3	2.5	2.6	2.6	2.9	3.0	3.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.1	0.1	-0.1	-0.2	-0.2	0.0
INDUSTRIAL PRODUCTION INDEX – AIRCRAFT AND PARTS							
Construction Simulation	1.0	1.1	1.1	1.2	1.3	1.3	1.4
DRI Forecast	1.0	1.1	1.1	1.2	1.3	1.3	1.4
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.2	0.2	0.2	0.2	0.2	0.2
INDUSTRIAL PRODUCTION INDEX – SHIPS AND BOATS							
Construction Simulation	1.6	1.6	1.7	1.9	2.0	2.0	2.2
DRI Forecast	1.6	1.6	1.7	1.9	2.0	2.0	2.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.4	0.3	0.2	0.1	0.0	0.1
INDUSTRIAL PRODUCTION INDEX – RAILROAD EQUIPMENT							
Construction Simulation	0.4	0.5	0.7	0.7	0.8	0.8	0.8
DRI Forecast	0.4	0.5	0.7	0.7	0.8	0.8	0.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.2	0.2	0.2	0.2	0.2	0.2
INDUSTRIAL PRODUCTION INDEX – MOBILE HOMES							
Construction Simulation	1.5	1.5	1.6	1.7	1.8	1.8	1.8
DRI Forecast	1.5	1.5	1.6	1.7	1.8	1.8	1.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.0	0.1	0.2	0.2	0.2
INDUSTRIAL PRODUCTION INDEX – INSTRUMENTS							
Construction Simulation	1.7	1.8	1.9	2.0	2.1	2.2	2.3
DRI Forecast	1.7	1.8	1.9	2.0	2.1	2.2	2.3
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.4	0.4	0.4	0.4	0.3	0.3
INDUSTRIAL PRODUCTION INDEX – EQUIPMENT INSTRUMENTS AND PARTS							
Construction Simulation	2.0	2.2	2.3	2.4	2.6	2.7	2.8
DRI Forecast	2.0	2.2	2.3	2.4	2.5	2.7	2.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.1	0.6	0.5	0.5	0.4	0.4	0.3
INDUSTRIAL PRODUCTION INDEX – CONSUMER INSTRUMENTS							
Construction Simulation	1.4	1.5	1.6	1.6	1.7	1.8	1.9
DRI Forecast	1.4	1.5	1.6	1.6	1.7	1.8	1.9
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.3	0.3	0.3	0.3	0.3
INDUSTRIAL PRODUCTION INDEX – MISCELLANEOUS MANUFACTURES							
Construction Simulation	1.5	1.6	1.6	1.6	1.7	1.7	1.8
DRI Forecast	1.5	1.6	1.6	1.6	1.7	1.7	1.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Difference	0.0	0.2	0.3	0.3	0.3	0.3	0.4

APPENDIX B

The Baseline Forecast

The baseline long-term projection for this analysis is Data Resources' TRENDLONG 0584, which is consistent with CONTROL 042484 through 1986. The trend projection is a "smooth growth" scenario in that it does not incorporate business-cycle behavior and major external shocks or mishaps beyond the short-term forecasting horizon. After 1986, the projection therefore represents the **mean of all possible paths** that the economy could follow, assuming no major disruptions.

The Near Term

The rapid economic growth experienced in the first quarter of 1984 slows markedly, resulting in real GNP growth of 5.9 percent in 1984 and 2.5 percent in 1985. Correspondingly, the civilian unemployment rate reaches its lowest level since the first quarter of 1980, falling to 7.3 percent by the end of this year. After two years of economic recovery, however, high real interest rates and a strong though depreciating dollar slow the rapid growth sustained since the second quarter of 1983. Consequently, the unemployment rate gradually rises, reaching 7.6 percent in 1986.

As measured by the implicit GNP deflator, inflation is currently 4.2 percent and is expected to increase only slowly, to 5.7 percent by 1986.

The federal deficit remains high, limiting the decline of real interest rates from their present level. In late 1985, however, it is assumed that Congress passes a $50 billion tax and expenditure package that partially eases the deficit problem and permits some drop in rates.

1987 and Beyond

Supply-side factors normally dominate the long-run growth outlook, with the economy eventually growing parallel to its potential ceiling. During the period between 1983 and 1990, actual output generally rises faster than potential output, pushing the unemployment rate slowly down to 7.0 percent. As capacity utilization rises and demand pressures resume, however, inflation begins to creep upward. As measured by the GNP deflator, it reaches 5.9 percent by 1990.

Capital stock growth is expected to remain strong, thanks in part to the corporate tax cuts in the Economic Recovery Tax Act of 1981 (ERTA), even as amended by the Tax Equity and Fiscal Responsibility Tax Act of 1982 (TEFRA). The capital stock grows an average of 4.0 percent annually beyond 1986, a rate significantly higher than the 3.4 percent recorded between 1970 and 1980. The continuing recovery and improved corporate cash flow (due to the depreciation incentives in ERTA) contribute to the large projected increase in the business fixed investment share of GNP from 10.5 percent in 1983 to 12.4 percent in 1990. Capital stock growth would be stronger were it not for its age structure: 73 percent of new investment simply offsets retirements from the existing stock. This heavy replacement demand provides further underpinning for the increased share of business fixed investment in GNP.

Output per hour is projected to average 1.9 percent increases annually, a marked improvement from the 1.4 percent of the 1970s. A higher capital-labor ratio, the aging of the baby-boom generation into prime working-age cohorts, and the prolonged effects of the recovery account for much of the projected increase in productivity growth.

Improved productivity and increasing international competition exert downward pressure on unit labor costs, which increase at a 5.3 percent annual rate between 1986 and 1990, significantly below the 7.1 percent rate experienced in 1971-83. With inflation also averaging 6.0 percent, real unit labor costs remain virtually flat after 1986.

International trade deficits continue to be a restraining force on the U.S. economy. Despite a 10 percent depreciation of the dollar over the projection period, the trade deficit averages a substantial 1.8 percent of GNP between 1987 and 1990. Even with a fairly large surplus in services trade (averaging 1.6 percent of GNP), the worsening merchandise trade deficit (3.0 percent of GNP) prevents a trade balance.

As shares of GNP, federal purchases and grants-in-aid continue to deviate from their respective trends in the 1960s and 1970s. Defense spending is projected to grow as a share of GNP while the shares for nondefense purchases and grants-in-aid are expected to fall.

Key Assumptions

Over the long term, crude oil prices will again rise as the oil glut disappears. The price of imported crude is expected to remain at $29.20 a barrel in 1984 and increase by an average of 7.9 percent annually thereafter. Nonetheless, the 1980 peak in the real price of oil is not surpassed within the current forecasting horizon. No oil embargoes are assumed.

Although not as restrictive as in recent years, monetary policy is assumed to remain tight over the projection period. Real money supply (M2) growth averages 2.8 percent annually.

In 1987 and beyond, indirect taxes are raised continually in order to keep the deficit lower than it would otherwise be; income tax indexation is also assumed to ignore the first 2 percent of inflation in each year. The static revenue effect of these two assumptions rises from $9 billion in 1987 to $40 billion in 1990.

TRENDLONG uses the Census Bureau's middle-growth population projection. Total population is thus assumed to grow an average of 0.9 percent per year from 1983 to 1990.

APPENDIX C

Structure of the DRI Model of the U.S. Economy

The DRI Quarterly Econometric Model of the U.S. Economy follows the income-expenditure approach pioneeered by Keynes and initially applied in econometric models of the U.S. by Tinbergen and Klein. The circular flow of income and expenditures is modeled as measured in the national income and product accounts. The principal equations of the model explain the major components of final demands, taxes, profits, and other components of national income. The desire to model the economic processes as inputs to institutional decision-making has led to considerable expansion of the DRI model over time. More disaggregated and elaborate equations for final demands and incomes have been developed and a detailed, fully simultaneous financial sector, stage-of-processing price block, and industrial production sector have been added. In addition, the latest theoretical advances such as the neoclassical investment function, lifetime consumption theories, profit maximization proxies in the final demand equations, and production functions relying on fixed input-output coefficients have also been incorporated into the equations.

The model has become less "Keynesian" as a result of these developments. The introduction of a detailed financial sector and of interest rate and wealth effects in spending equations gives greater recognition to the importance of money. Modeling the business balance sheet, the household flow-of-funds and balance sheet, and the mortgage market ties the financial and real aspects of the model even closer together. One result is that fiscal policy simulations run without accommodating monetary policies show reduced multiplier effects. In addition, the model's emphasis on stock-adjustment processes, with the stock of capital, inventories, housing, cars, and population all playing a role, has reduced the multiplier effects. Finally the introduction of wage equations embodying a near-accelerationist point of view has built a greater sensitivity to inflation into the model. As a result, additional inflation automatically reduces real activity. Thus, the DRI model has moved a long distance in the controversy between fiscal and monetarists.

Consumption: The DRI model disaggregates consumer spending to 15 categories, relating them to disposable income, relative prices, demography, physical stocks, risk and sentiment variables, inflationary expectations and household financial assets and debt. The traditional role of current-period income has thus been de-emphasized while the impact of the financial sector is strong.

Housing: The housing sector models the supply of three types of housing, relying heavily on financial and profitability measures. Housing demand is modeled from demography, income, and relative cost. Measures of disequilibrium, most particularly the inventory of houses for sale, affect the reconciliation of supply and demand.

Business Investment: The investment equations are based on the Jorgenson neoclassical approach as modified to include (1) the impact of pollution abatement requirements, (2) an accelerator term capturing the greater need to replace capital given higher utilization rates, and (3) a sales disappointment term depressing investment. A measure of the cost of capital which reflects the actual mix of debt and equity financing is used. Corporate debt service also enters separately, further strengthening the impact of financial conditions. Investment equations for 22 separate industries use a similar neoclassical approach.

Aggregate Production Function: Potential real GNP is a function of the labor force, size and age of the capital stock, energy supplies and the impact of research and development (R&D) spending on productivity. This concept is modeled in a two-part process. First, a Cobb-Douglas production function is estimated for the four inputs — capital, labor, energy, and R&D. Then, the estimated coefficients are used to construct a composite factor index which is then regressed against time trends to reflect the effects of technology change and against average weekly hours to capture cyclical variations about the trend.

Inventories: The standard relationship between sales and the desired stock of inventories form the basis of the inventory equations. Deviation of sales from projected sales expectations captures unintended accumulation. The cyclical behavior of inventories has been heightened through the use of both capacity utilization and vendor performance, creating a very sensitive production-inventory-price loop.

Government: The federal government sector is largely exogenous but state and local outlays are endogenously determined. Revenue needs for state and local government units are projected from demographics, economic conditions, and normal growth, but limited by the government's financial position. In addition, balanced preferences among tax sources are imposed on the revenue equations.

Foreign Trade: The foreign trade sector includes disaggregated equations for six categories of exports and seven categories of imports. The equations rely primarily on relative prices and activity variables. The foreign activity measures and the exchange rate are mainly exogenous, although the level of U.S. activity does have some effect on the foreign economies.

Wages and Prices: The fundamental wage equation captures the impact of both inflation and labor-market conditions. Wholesale prices and 19 price deflators are modeled using a stage-of-processing approach with the equations using constrained weights on input-cost terms from an input-output matrix. Labor and excise tax costs as well as demand measures are also added to the equations.

Incomes: Profits are modeled by a behavioral equation relying on output, price-cost spreads, and capacity utilization. Personal income depends on the overall level of economic activity determined on the expenditure side. Wage and salary disbursements are related to average hourly earnings of production workers and to manhours worked. Other income categories modeled include: other labor income, income accruing to farm and nonfarm entrepreneurs, and rental income.

Unemployment: The aggregate unemployment rate is forecast using a traditional inverted Okun's Law approach. A set of social indicator equations also calculates the detailed structure of unemployment by age, sex, and race.

Interest Rates: The model includes forecasts for 25 major interest rates through a segmented market analysis of the demand-supply behavior as it pertains to each market. Thus, long-term rates are determined separately from short-term rates, relying primarily on inflation expectations and market-specific demand and supply of liquidity. The short-term rates are also determined from the interaction of the supply of liquidity, in this case largely determined by monetary policy as well as portfolio adjustment of lending institutions, and by the market-specific liquidity demands.

Flow-of-Funds: The model includes equations for the nonfinancial corporate balance sheet items, broken down into uses and sources of funds, details of household financial assets and liabilities, and a highly disaggregated representation of the mortgage market. Inclusion of this detail allows more accurate forecasting of the GNP expenditure totals, since explicit balance-sheet constraints are incorporated.

Industry Employment: The production equations are supplemented with a set of 30 industry employment equations, each of which embodies a production function, relying on the appropriate output measure and time trend as a proxy of the long-run trend in productivity. The stickiness of employment with respect to production is captured through a partial adjustment coefficient attached to the prior level of employment.

Energy: The latest version of DRI's model contains considerable energy detail. Four categories of energy-intensive consumption (gasoline, fuel oil and coal, electricity and gas) are modeled, as are the implicit deflators for these categories. At the wholesale level, the price indexes for coal, natural gas petroleum, refined products, and electricity are modeled. Domestic producion of crude oil and fuel imports are also modeled. Much of the energy detail is taken from DRI's Energy Service but simulation rules ensure that the nonbehavioral portion of the energy sector reacts appropriately to assumed changes in the economic environment.

Mr. **Supica**. We certainly believe that the economic growth of America must have a good, well financed, consistent surface transportation program, or economic growth is not going to occur and we are not going to be able to reduce the deficit which the administration and Congress are vitally concerned about.

Mr. **Anderson**. The two reports have been made a part of the record.

Mr. **Supica**. Thank you, Mr. Chairman.

Mr. **Anderson**. My last question, Mr. Supica, is: Unit prices for the Federal Aid Highway Construction Program have increased recently. Could you explain why these increases may be occurring and, generally, how does the size of the Federal Aid Highway Program affect these unit prices?

Mr. **Supica**. I think I covered part of that earlier.

Mr. **Anderson**. You touched on it there a little bit.

Mr. **Supica**. But I would like to explain a little bit more. This recession that our industry went through in 1981 and 1982 put contractors in a position where many of them will not be around next season.

They were able to survive the 1984 season by desperate bidding in order to be able to keep a positive cash-flow, and they certainly had to be in a position to start developing a return on their investment.

Dunn and Bradstreet reports says that there have been more contractor failures in 1984 than in the 50-year history they have kept such records.

The only years higher than that were 1983 and 1982, so our highway contractors are having a tremendous financial struggle trying to be able to replace our plant and our equipment, which is gradually wearing out just as our highways are wearing out.

When you stop and look at the price for replacement of equipment today, a D-9 bulldozer will cost you $400,000. The motor scraper that we move dirt with will cost you $350,000 to $400,000 also.

The incentive for the contractors to go out and finance additional new plant and new equipment is simply not there because of on-again, off-again funding.

The ripple effect of this is devastating. I think we've all read what has happened to the equipment manufacturers throughout the Nation.

Caterpillar, one of the greatest manufacturers America has ever had, is going through financial problems. Many of the manufacturers in the construction industry have folded their tent and gone into other investments.

I respectfully submit to you, sir: We must be in the position where we try to have and maintain a consistently funded highway program so contractors will be motivated to invest capital in new equipment to be able to work more efficiently if we are going to be able to hold prices in check.

Mr. **Anderson**. Mr. DeLay.

Mr. **DeLay**. Thank you, Mr. Chairman. I'd like to follow up on especially a couple of questions by the Chair dealing with the CBO's report that the highway trust fund could be in financial difficulty.

I know, Mr. Supica, you answered the Chairman's question, but I'd like to ask Mr. Clements:

Do you see—how these needs should be funded if the money is not in the fund?

Mr. CLEMENTS. If there is not sufficient money in the trust fund?

Mr. DELAY. Right. As the CBO says there won't be.

Mr. CLEMENTS. In other words, that's assuming that you draw down the trust fund to some minimal balance that will cover those obligations.

Mr. DELAY. [Nodding.]

Mr. CLEMENTS. Well, I think I'd have to answer the way some speakers did apparently this morning: I think we ought to close all the loopholes that we can. I think gasohol that the Chairman has talked about is one. As far as increasing revenues is concerned, I think the jury is still out. I don't know if your question is aimed primarily at Interstate construction, but I would think that one of the things that's going to be necessary in the future program, and one of the things I think your own committee members are under some attack on, is demonstration projects. The very fact that demonstration projects have come into the fore is a reflection of the fact that the current program isn't answering all the needs that are out there. It answers old needs, but it isn't answering new needs.

Most of us who have been involved on the State highway side know that behind every demonstration project is usually a highway commissioner who has something above and beyond the regular program that can't be accomplished. So, they come to the Members of Congress and say: isn't there some way we can get this done?

And Members of Congress try to find ways to get that done. Demonstration projects are an indication that the program isn't anywhere near what the needs of the country's highways are and members are struggling to find ways to meet these needs.

I think that, if we can design a program that identifies those needs as we've traditionally done, highway user support will be forthcoming. What highway users want to see the needs demonstration first, comprehensibly and professionally. Then they'll turn to the subject of raising additional revenues. They've come through in the States and they've come through and support Congress in doing it once the needs are demonstrated.

So, I think that that's the way we have to approach it. I think the jury is still out as to whether it ought to be a bigger Federal-aid program or whether the Federal-aid Program ought to be frozen at this level and that programs of nonnational significance should go back to the local level. There is quite a bit of growing support to do just that.

Mr. DELAY. Mr. Johnson, I'm a little confused in—I think it's on page 3 of your testimony. You said that the highway trust fund was in a strong cash position. Does that mean that you disagree with the CBO's report, or——

Mr. JOHNSON. Oh, no. No, sir; that merely points out that that much cash or checkbook balance, so to speak, is in the trust fund.

There are encumbrances against most of that money from prior apportionments and allocations of that money already. All we are saying is that more work could be let and use this money a little faster down to a safe point. In connection with that, let me say that we certainly agree to this extent with CBO, there should be a uniform program, because, as has been pointed out, the up and down effect is disastrous to everyone including contractors.

Rather than cutting obligation ceilings, another possible answer is, for the moment, anyhow, to extend the life of the highway trust fund.

Presently, it expires on September 30, 1988 and the closer we get to that date, the less money can be estimated to be available. Therefore, as they point out, if that were the case, probably the program would have to be reduced. But I would hope some action would be taken in the meantime to keep the program on a strong level.

Mr. DELAY. Let me change the subject a little bit.

Mr. Clements, recently, there has been discussion of a possible increase in the gas tax, with most of it going to the transit system. Would you care to give us your thoughts on such a gas tax increase?

Mr. CLEMENTS. Yes; I'd be very happy to because that's one of the things that members of our organization—whether they are the trucking companies or whether it's AAA—are united in. And I'm sure the committee believes this, too there has been no more democratic form of taxation that's been accepted by the public than the user-fee type of concept.

It's the oldest around. It's used everywhere. It's used whether you are in the fish and game department and want to finance pheasants by buying pheasant stamps or whether you finance duck enforcement by duck stamps or whether you want to—whether you would do airports through an airport user fee or what have you.

The background of the user-fee concept really goes back to early toll roads in this country, and even in Europe. Those that use pay for them. If you don't ride on it, you don't pay for it.

I think that immense amounts of money that have gone into this Highway Program and, by and large, it's met with immense public support.

After the STAA was passed there were great cries from the States that the Federal Government was preempting the States' rights to raise their own gas taxes. And yet, almost without delay all the States immediately responded and came up with a match within the first legislative session.

And, when you talk to the Governors of those States about whether they ever fetched any bad headlines and that kind of thing, they didn't get any, because the public can really identify with that.

Once you start diverting highway user fees and using them for others—adding to the trucking industry's cost, which is already under seige—by taking money that they are paying in and using it for a system for mass transit, you are going to start to erode support for the basic highway system.

Transit ought to have their own trust fund. And, if transit benefits downtown merchants or others, then they should be taxed to pay for it. We are not going to gain anything if we start to erode that user concept.

Mr. DELAY. Mr. Clements, do you see any danger that, as the Interstate Program is completed in more and more States, there would be increasing pressure to drop the program, leaving the final gaps uncompleted?

Mr. CLEMENTS. Yes, I do, but I think maybe some others here at the table might want to answer that, also. I think we are already seeing that 95 percent complete and because of the delays over the ICE.

More and more donor States are complaining about contributing in and getting back less. We may be approaching a time when the last ICE must be passed. As people start to complete out, there is less and less interest in getting a clean ICE.

Mr. DELAY. But is what you're saying: to head off that problem is to extend ICE over a longer period of time, or extend the trust fund?

Mr. CLEMENTS. I would think if there was some mechanism releasing obligational control, or having no obligational control on Interstate completion, it would be great, because then States would have the incentive to immediately move to complete that because that would be obligational control above and beyond their regular system.

What's happening now is that, because of obligational control, you are constantly fighting the battles as Mr. Supica talked about: jumping from primary to Interstate to try to match all these various formulas, and it just doesn't really work very well that way.

I think, if you could identify the cost to complete like you have—$20 billion—have that exempt from obligational controls, put a time limit on availability—saying you are not going to get any more money after a certain date. Built in at an additional cost to the slow States. I think you'd find a lot of States rushing to complete their Interstate system.

Mr. DELAY. Well, there's a couple of other subjects. Just very briefly, if you can, on the speed limit, I'm sure you have driven in West Texas and highways in Texas.

Mr. CLEMENTS. My mother was from Tyler.

Mr. DELAY. Do you have any figures that show that the speed limit has saved any lives in the rural areas?

Mr. CLEMENTS. Well, the TRB study showed that—I guess the example I gave a little earlier was that they kind of made it into a formula and said that, basically, someone could drive 4 years on the urban section without losing a life but you'd have to drive a hundred on the rural sections.

So, basically, what they were saying is: You could drive twice as long on the rural sections without exposing yourself to a fatality, as on the urban.

Mr. DELAY. Does that mean you can drive twice as fast, and be able to drive 40 years?

Mr. CLEMENTS. No; there's no question that the fatality benefit in the rural areas is just not as critical.

Mr. DELAY. One quick comment on your comments on mandatory seatbelt laws. May we assume that you believe that this law would not be abused by the police to simply stop vehicles at random and check whether seatbelts are fastened or not?

Mr. CLEMENTS. Well, I think that's our assumption. I'm not in the law enforcement community, but I've been involved with them a lot and it would just seem to me that they have more than enough to do without having to do that kind of thing.

I think the main advantage of a mandatory law is like the mattress-tag syndrome where, if it's the law, people do it. And it's certainly being proven in those early states in the man-on-the-street interviews.

Mr. DELAY. No, I tear the tags off of mattresses. [Laughter.]

Mr. Johnson, last year, Mr. Hanson and Mr. Perini testified for your organization. Mr. Perini testified that ARTBA recommended the next ICE be the last one, as ICE was becoming an anachronism. Given the recent passage of the 18-month ICE, is it ARTBA's position that the interstate construction and the interstate 4-R apportionment be combined? If you are not ready to comment, you could submit your answer for the record if you'd like.

Mr. JOHNSON. Be combined? I didn't exactly understand the latter part of your question, Mr. DeLay.

Mr. DELAY. Well, given the recent passage—we just passed the 18-month ICE——

Mr. JOHNSON. Yes.

Mr. DELAY [continuing]. Is it your organization's postion that the interstate construction and the interstate 4-R apportionment be combined?

Mr. JOHNSON. Although we do not have any specific policy on that I have an opinion but I think I would take your suggestion and submit an answer for the record later, if that is satisfactory.

[The following was received for the record from Mr. Johnson:]

The passage of ICE approval legislation has become so entangled in unrelated issues that ARTBA believes future Interstate Cost Estimates be submitted to Congress only for review. With so little of the Interstate System still requiring completion (less than five percent), the Federal Highway Administration should have the authority to adjust the ICE as appropriate and submit it to Congress. It would be approved if not legislatively modified by passage of appropriate legislation by Congress.

ARTBA in last testifying on ICE did not infer that these two categories should be combined, but as stated, make ICE technical rather than a procedural handup.

Mr. DELAY. Then, what is your opinion of the current funding of the highway bridge replacement rehabilitation program?

Mr. JOHNSON. I think that it is a very necessary program and the funding has been increased to a much more reasonable level than it started out in past years. It is my understanding that even more funding could be justifiably used in that program.

Mr. DELAY. Mr. Chairman, I only have question of Mr. Supica. And, frankly, it's a question that I've been dealing with for over six years in State legislature and it's one that I hope I have some input by serving on this committee.

What is the biggest problem that contractors face in trying to get the job done on time and within your budget? Realizing the restrictions on time.

Mr. SUPICA. I understand, sir. Second only to funding is the quota system that we are faced with now.

Mr. DELAY. The quota?

Mr. SUPICA. The quota system. The DBE quota system that we are faced with.

We are forced—my own firm, for instance: I'd rather speak to that because, as I say, those are things that I do understand and have first-hand knowledge of.

These past 14 years, I checked back to see just what percentage of work that my firm had subcontracted out, and we've averaged 10.2 percent.

Now, we have the quota system that says I can't do business with the speciality contractors any more that I've done business with for a lifetime. I've been involved in this business since I was 16 years old. I must now go out and subcontract that 10 percent quota to DBE firms. All due respect, you don't get to be a contractor overnight. I spent a period of 26 years as a protege, if you please—as a general superintendent; general manager for one of the major firms in the Kansas City area; as a vice-president, and 13 years as a 15-percent stockholder in one of the major highway contracting firms in Kansas City until I financially had the resources and experience to be able to go out and put my sign out in 1970 and say: I am a contractor.

And to think that anyone, regardless of race or sex, overnight, could be a contractor—is going to have some very disappointed individuals in a matter of a short period of time.

I think we are witnessing this quite rapidly now on some set-aside projects that are being let to newly formed firms who have had very little experience as contractors in the past and are currently trying to put work in place, and are finding the problems—the lack of experience in the estimating end of it, of being able to have the organizational management background and financial resources to see those contracts to completion.

We are finding a lot of newly formed minority firms, who are trying to work into the system on set-aside projects, that are defaulting their work at this particular time.

I certainly predict we are going to see a great deal more of its during the 1985 construction season.

And what is the biggest problem we have at this time? Trying to get the minority, the DBE, the WBE firms—quotas we are required to get as part of our contract—to get them out on the project; get their portion of the project completed.

Mr. DeLay. I know my district is one of the fastest growing districts in the Nation. We have tremendous transportation problems. One of the problems that I found was the length of time from the conception of building a project to just letting the bids. It seems to be increasing.

There was the incident where a highway—a new freeway, Highway 288, coming south of Houston was stopped for a whole year because of an eagle's nest.

There were many, many cases like that where Federal regulations have seemed to stretch the time of putting concrete on the ground.

Have AGC or any of your other organizations taken positions on that or do they think that's a pretty low priority? Because, in my mind, if you shorten that time—that paperwork in bureaucracy, we would probably not be here today fighting over money.

Mr. Supica. Regulations are necessary in certain areas, but there are certain areas where regulations—sometimes we find ourselves being over-regulated because the perpetuation of its own existence—it continues to create reasons to continually exist.

The period of time from the point of acquiring the right-of-way and actually getting the contract to bid seems to me to be an excessively long period of time. And yet I sympathize. I know my problems as a contractor and yet I sympathize with my counterpart from the Department of Transportation, once again, not knowing what the funding is going to be; what the budget is going to be; what type of a 5-year program they are going to be able to project.

We feel very strongly from the private sector end of it, from the contractor's end of it, that we should have a 5-year program from the highway agency that we are working with so we, ourselves, can get our organization and our equipment—our plant, prepared for a long-range program.

And yet, when the Department of Transportation knows the funding is an up-and-down—a peak-and-valley type of situation, it is extremely difficult for them to know how they are going to fund it.

What we hear is: they have, for example, a $100 million program this year but yet, because of the difference in funding, they may have to put those funds in a different type of job than they originally planned would be on this program that they submitted so the contractor could plan their plant and organizations for.

I think one way we can reduce the cost of highway construction is if we can ever get to where we have a consistent type of funded program, so the Departments of Transportation, the right-of-way agents can plan in a consistent manner.

Then, your contractors, in turn, sir, will be in the position to have plant and personnel ready to move in rapidly in order to be able to complete that project and get the project back to the use for the people who are paying that bill. We have that obligation to them, I believe.

Mr. DeLay. Mr. Clements.

Mr. Clements. Congressman DeLay, I think, for your own information, Mr. Shuster has had a couple of pieces of legislation that advance and were set up to demonstrate what a fast-track program could be.

I think, when I was in New Hampshire, we built a lot of turnpikes in New Hampshire—toll roads—and we continue to build them.

We can really go from the concept in the hearing stage of the public hearing to people driving on it in 2 years. And the public is delighted with these and totally frustrated with a Federal-aid project that takes a minimum of 6 years.

I know that the rest of the committee and the chairman have heard this till they are really tired of it, but the committee has taken steps in the past to try to demonstrate and try to get those fast-track.

But I am glad that one Member continues to ask those questions because that frustrates all of us—the users that don't get the roads, the contractors that have to put up with the frustration, and AASHTO that has to design it.

Reducing the number of categorical grants and the number of requirements is just a must if we are going to have a good delivery system.

Mr. SUPICA. Let me give you an example, once again. In Kansas, we have a turnpike that we are extremely proud of. The Kansas Turnpike is approximately 300 miles long. We built that project in 30 months from the time the contracts were issued until we had cars dropping their tolls in. If we were doing this now, through the various agencies and all the regulatory problems we have, you are probably looking at 6 to 8—10 years. And, of course, when you build a project—when the money is appropriated for it, of course, that was private funds. But, once the money is appropriated, it's really not generating anything until you have people using it.

And we must look at the public highways the same way we would a private highway. Once that investment is made, the quicker we must get it in production and use. That's our moral obligation to the taxpayers.

Mr. DELAY. Thank you, Mr. Chairman. I appreciate the time.

Mr. ANDERSON. Thank you very much.

I was going to ask you as a general concept, answering "yes" or "no": would you support gasoline tax increase? I'm not going to ask you that. I'm going to make a statement on it because I think it's more than putting you on the spot. I don't think there is a question—there isn't a question in my mind that by—I don't know the exact year, but let's say by 1989, we are going to have to have some kind of a gasoline tax increase.

Now, I think the message I'm giving to all three of you is that your organizations are the ones that should be getting the country ready for it—through media, through local chambers and through all kinds of groups. Because, if we don't do it nationally and our roads deteriorate, then you're going to have to raise it locally.

I don't think it's any easier to raise the money back in our local States than it is to do it nationally. Maybe we can do it better locally, but I think that's something we have to decide.

And, if we don't do it, all we are going to do is have more roads go to pieces and, when we do fix them, it's going to cost twice as much. But I don't think the people right now are ready for another tax increase unless and until we get the message out from—we've got the contractors and the road-builders and the users.

I mean you three cover that area pretty well. I think you have to sell the people on the fact that, if we don't do it nationally, we've got to do it locally and there's taxes both places and, if we don't do it either, the whole thing goes up sky-high in price.

So that's my message. I'm not going to ask you whether you support it or not. Maybe next time I will.

Thank you very much. The meeting is adjourned.

[Whereupon, at 4:10 p.m., the meeting was adjourned.]

[Prepared statements of the Highway Users Federation, the Associated General Contractors of America, and the American Road and Transportation Builders Association follow:]

STATEMENT OF THE HIGHWAY USERS FEDERATION BY JOHN A. CLEMENTS, PRESIDENT

I am John Clements, President of the Highway Users Federation.

The Federation is a national coalition of businesses, industries and individuals with economic and social interests in an efficient and safe highway system. Our members are the major producers and consumers of highway transportation products and services.

We appreciate this opportunity to express our concerns over the Administration's funding proposal for Fiscal Year 1986 and over the direction of our nation's highway program.

Mr. Chairman, the Highway Users Federation speaks for American industry on highway transportation issues. Our members feel strongly—as do most Americans today—about the need to get our economic problems under control. While it is an economic necessity that we reduce the burgeoning federal deficit, it is also an economic necessity that we continue orderly investment in our nation's highways.

We simply cannot have a first class economy with a second class road system. Our highway is an inseparable part of our industrial, agricultural, technological and tourism strength. Our ability to manufacture is only one part of our dynamic economy. Today, more than ever before, we have to move raw materials and finished products internationally with maximum efficiency if we are to complete effectively in the world market place. Transportation has always been America's strength, and in the final analysis, every product and employee moves on a highway at some point in the process. And let's not forget the critical role that highway transportation plays in the defense of our nation.

Highway funding

From the business man's standpoint, bad roads add to the price of products and contribute to inflation. Rough and broken pavement increase truck fuel use by about 20 percent.

Our members continually stress how important a good, safe highway network is to the nation's economy, productivity and competitiveness.

Highways are a conveyor belt linking all parts of America's industrial network. Roads are an essential component of the manufacturing process—whether in moving raw materials or parts to plants and production lines, finished products to retail outlets, or people to and from work. Substantial amounts of inventory are in moveable storage on our nation's highways right now.

On-time deliveries are critical if we are going to have a healthy and profitable economy. When this conveyor belt develops problems, business and industry develop problems. When efficiency drops, costs rise and productivity suffers.

In addition to the role of highways to expand and make production more efficient, highways are also a key to our export capabilities. To meet the demands of international trade, "farm-to-market" roads have become "harvest-to-harbor" highways. Agricultural products account for a fifth of U.S. exports. At some point, almost all agricultural goods must be moved by road.

Foreign trade can and should generate a larger and larger proportion of America's gross national product. At a time when our nation is gravely concerned with the growing federal trade deficit, a sensible program of investment in our highways is an economic necessity. America must keep up its capital investment in roads and streets if we are to improve our economic productivity, increase our production efficiency and meet market place competition abroad.

Mr. Chairman, let's not confuse rhetoric about deficit reduction with the operation of a user funded program. It's important to remember that the Federal-aid highway program is a unique fiscal structure which provides for increased highway investments in a responsible way. Its pay-as-you-go principle is distinct from most federal programs. Money must be on hand in the Federal Highway Trust Fund before dollars can be spent for specific needs. It does not, and cannot by law, create deficits.

Just as we would expect the private sector to continue to invest in their capital facilities for efficient production, highway users expect government to do the same—expeditiously invest user fees in efficient highway systems.

Because the highway program is not debt financed, reductions in the obligation limit will not decrease the federal deficit. If we as a nation fully intend to get the growing federal deficit under control, then we must take the hard steps which will accomplish that goal. Reducing the highway obligation limit will not contribute in any way. We are not being intellecutually honest with ourselves if we take that course.

The Federation believes that obligation limitations are unnecessary. However, if Congress finds it desirable to set obligation limits, then those limits should permit the full use of the authorizations in each fiscal year. Low obligation ceilings in the past have serverely limited the level of activity in the Federal-aid program and have contributed to an undesirable cash balance in the Federal Highway Trust Fund.

Should the Congress want to select an obligation limit for Fiscal Year 1986, we suggest the $14.45 billion obligation limit contained in the Surface Transportation Assistance Act of 1982 (PL 97-424) at a minimum. Bringing Emergency Relief funding and the Minimum Allocation program under the obligation limit works against the value of setting a high obligation limit, and will hinder the longtime highway user goal of completing the Interstate system by the year 1992.

Beyond this, the major stumbling block in completing the Interstate system has been the failure of Congress to deal firmly and decisively with the Interstate Cost Estimate (ICE). The result is that orderly, long-term progress, the hallmark of the highway program, has ended. Unless Congress returns to the traditional approach, this destructive "stop and go" process will worsen and public support for the program will weaken even further.

The ICE problem *can* be finally resolved. Future delays in completing the system *can* be eliminated. The deadline for withdrawals from the system has passed. The final cost to complete the designate system can be calculated. It is possible to establish a process to permit the Secretary of Transportation to update the estimate administratively.

The ICE delay has set back the Interstate program. Funds which could have—and should have—been obligated in the second half of Fiscal Year 1984 and in the first half of Fiscal Year 1985 may now not reach contract stage until after Fiscal Year 1986 begins. Annual obligation ceilings control new authorizations as well as expenditure of funds left over from prior years. Projects which cannot be let to contract in 1985 displace an equal dollar amount of projects planned for 1986.

We urge you to avoid this domino effect of delayed projects by insuring that an adequate 1986 Trust Fund obligation limit is set now, and that future obligation limits are set as appropriate over the next two to three years, so the states will regain time lost because of the ICE delay.

Highway safety

The President's budget submission for 1986 provided a welcome surprise; the budget recognizes the vital importance of highway safety.

The President's budget fully funds the state and community highway safety grant program—Section 402—at $126.5 million. Last year, we worked closely with this Subcommittee for passage of HR 4616, legislation introduced by Chairman Anderson, to fund through Section 402 a program to assist states in their efforts to develop and implement comprehensive programs for the use of child restraints in motor vehicles. These funds will encourage and help states to achieve better enforcement of child restraint use laws through training of police officers, public information and education on the correct use of child restraints, maintenance of adequate records which permit sound evaluation of child restraint programs; and to seek further means to encourage greater compliance with child restraint law. In our judgment, fully funding the 402 program is essential to insure that this vital lifesaving legislation is implemented as intended.

Because Section 402 is also used to assist states in enforcing the National Maximum Speed Limit (NMSL), fully funding Section 402 is even more important. The Federal strongly supports compliance with the NMSL and the level of enforcement necessary to achieve that compliance. The remarkable safety payoff of the NMSL has persisted over the past decade despite the current trend toward slightly higher average speeds. We would hope that as a result of the recent National Research Council/Transportation Research Board study on the 55 mph speed limit, mandated by this Committee, the states will recognize that the enforcement focus of their program should be shifted to segments of the state's highway system where reduced speeds will produce the greatest safety payoff. Furthermore, we believe that the study has provided many important insights into the strength and methods for assessing that compliance by the states. We would hope that this information would be considered in upcoming Committee deliberations on increasing the effectiveness of the NMSL.

The Federation supports the $28.8 million funding level for Section 408—The Alcohol Traffic Safety Grants. To date, 16 states covering 15 percent of America's population, have qualified for these grants. Because funding remains available for several years, we hope that this Committee in upcoming legislation will give consideration to fine tuning the qualification criteria so as to encourage additional states to seek these grants.

The Federation believes that one of the best ways to reduce the enormous social and economic losses we experience each year as a result of highway crashes is to pass and implement effective safety belt use laws at the state level. We support new appropriations from the Highway Trust Fund to the National Highway Traffic Safety Administration to fund their portion of the public-private sector effort to promote occupant protection.

Such appropriations should not be made at the expense of, or diminish, other ongoing programs. These new appropriations should be used for an aggressive educational program to tell the public of the benefits of safety belt usage, and to assist states and communities in implementing safety belt legislation. Other areas in which such funds could be productively applied include promoting corporate belt use policies, evaluation of belt law effectiveness, and training of enforcement personnel.

We believe this Administrative initiative is an important first step. However, we believe there is a larger federal role in promoting belt use. Congress should enact legislation that would encourage states to adopt safety belt use laws through incentive grants. We support financing these incentive grants out of the Highway Trust Fund.

In addition, we believe the Federal Government should demonstrate leadership in seeking universal safety belt use. The Executive branch should promulgate regulations requiring belts to be worn by all federal employees while on the job, as well as by employees of contractors working on federal projects. Provision should also be made to require belt use by persons driving or riding in a motor vehicle on highways on public lands under the jurisdiction of a federal agency, including national park-managed roads, and highways, and military bases.

Mass transit

Mr. Chairman, over the past few years the position of the Highway Users Federation on mass transit has been somewhat misunderstood. Let me take this opportunity to set the record straight. The Federation strongly supports cost-effective mass transit. We recognize that mass transit is an integral part of our nation's overall transportation system.

Our interest in America's transit program was renewed with passage of the Surface Transportation Assistance Act which diverted one cent of the highway user fee to subsidize the Mass Transit Account of the Federal Highway Trust Fund. Our Board of Directors did not oppose diversion of the "subsidy penny," and takes the position that since this revenue comes out of the highway users' pockets, the Federation should work to insure that the money is wisely spent.

Mr. Chairman as you know, I personally worked very hard as the President of the American Association of State Highway and Transportation Officials with you, your Committee and Secretary Lewis to pass the 1982 Act which included the subsidy for transit.

We are convinced that the Federal-aid highway program should serve as a model for other federal government programs since it has proved to be effective and has earned strong public support. We believe the following highway principles should guide the operation of our nation's mass transit program:

To the maximum extent possible transportation systems should be financed by the beneficiaries.

The Federal Government should define national goals and objectives—and share in capital costs—but take only a limited role in design, construction and operation which are traditionally and properly the responsibility of state and local jurisdictions.

Federal funds should only be a portion of the total program costs. They should be provided through a stable and assured funding source. Funds should be distributed to all states by formula with minimal categorical restrictions.

With these principles in mind, the Federation offers the following four specific comments concerning the President's Fiscal Year 1986 budget submission.

First, we support the Administration's notion that the federal transit program should be fully funded out of a dedicated funding source such as the Mass Transit Account. Let me hasten to say that we would aggressively oppose any efforts to divert additional highway user tax revenue to the funding of mass transit programs. The deep transit cuts proposed by the Administration will substantially weaken the system if not replaced by local increases. However, if the alternative is that highway users must bear an increasingly large percentage of the transit program, then we would be placed in the awkward position of reluctantly supporting the program cutback. I say "awkward" because we really don't like to comment on someone else's program. We have enough problems of our own. But if the money is going to come out of our pockets, we have no choice.

Frequently overlooked is the extent to which highway users already finance America's mass transit program. Currently, over 70 percent of all transit trips are provided by bus. About 95 percent of all areas which provide mass transit service do so with bus systems. The roads and bridges which these buses use have been bought and paid for primarily by highway users. And highway-using transit is in most instances exempt from paying highway user fees levied by states and the Federal Government to build roads and bridges.

Ironically, more support already comes from the Highway Trust Fund for each transit rider (13¢ per person-trip) than for each auto rider (4¢ per person-trip). Mass transit rides in total are subsidized by the Federal Government to the extent of about 56¢ per person-trip.

Second, federal capital support should not unnecessarily bias decisions between investment alternatives. Unlike the highway program, the Urban Mass Transit Capital Grant Program (Section 3) is heavily earmarked. In the current Fiscal Year over 75 percent of Section 3 is earmarked for rail transit systems. This focus is outmoded. It assumes that the nation's mass transportation needs are the same today as they were 80 years ago when most rail systems were built to meet needs of center city economic growth. Rail transit simply does not fill most of today's or tomorrow's needs. America will be better served by shifting the emphasis towards improved bus systems. In that light, we concur with the Administration's position to curb the proliferation of new rail systems.

The investment of transit capital funds should be keyed to serve the transportation requirement of the greatest number of people based on where they live and work.

To effectively target this money, local determination is essential. Public transportation service is largely a local matter. Therefore decisions between investment alternatives are primarily the responsibility of state and local governments.

Federal capital assistance should be distributed to states and local governments in a manner which does not distort investment alternatives. We believe that the best way to do this is to distribute funds to all states and communities on a formula basis.

Accordingly to the Urban Mass Transportation Administration's own calculation, over 50 percent of the Section 3 program went to only 4 states in Fiscal Year 1984. We wholeheartedly support the Administration's proposal to put Mass Transit Account funds out on a formula basis so that the highway users in every state who pay for the program may reap some benefit.

Third, we concur with the Administration's proposal regarding federal operating subsidies. Federal operating subsidies do not exist in the highway program. They are not a necessary—or desirable—federal role. Conceptually, we do not believe in operating subsidies for transit, either.

Fourth and finally, we oppose the Administration's proposal to change the funding source for the Interstate Transfer Grants from general revenues to the Highway Trust Fund. We estimate that this change will cost highway users over $1 billion through conclusion of the Interstate Transfer program. This is a cost we cannot afford, and should not be expected to bear.

Looking ahead

As the current period of authorizations comes to a close, one of the most challenging tasks before the Congress will be to envision the kind of Federal-aid road program that will meet the needs of the last decade of the 20th century and the early portion of the 21st. We're now in the final stages of a highway program dominated by completion of the Interstate highway system, conceived by Congress in 1944, a full 40 years ago.

Sweeping changes are shaping a new America, with mobility needs quite different from those of the past. These changes call for new thinking about surface transportation investments.

We're seeing unprecedented urbanization of rural areas: eighteen states experienced growth in rural populations in the last census. The census indicates that for the first time in history, the rural population of the United States is increasing faster than the urban population.

We're witnessing a rapid and increasing growth in employment in the fringes of urban areas and outside metropolitan areas.

These and many other changes suggest that some of our traditional highway and transit solutions may not adequately serve the needs of the future.

New program goals must be carefully defined and objectives established in a manner easily understood by highway users. A financial strategy to accomplish these goals in an orderly manner must be developed with user participation. This can be the basis for continuing public support for the program. These new realities need to be built into the discussion of the long range direction of Federal-aid highway and transit programs as they are debated and decided by Congress over the next few years.

As that debate moves forward the Federation will play a more active leadership role than ever before. The key highway issue which must be addressed is how to most effectively deal with the tremendous needs we can already identify, and the appropriate responsibilities of the various levels of government in addressing those needs.

The renewed growth—both population and economic—are placing ever increasing burdens on our nation's highway network. The resurgence of economic growth, spurred by hi-tech industry in New England, is creating boom towns around the southern border of New Hampshire. That state's highway program, which I had the privilege to direct for 9 years, could not anticipate this growth and is struggling to keep up with the demands being placed on it. Population growth in the sun belt states is placing similar unexpected demands on their highway systems. Virtually every state DOT's chief executive officer is saying the same thing daily.

Our nation has great unmet needs. Mr. Chairman, in your home state of California, more people with more cars are making more trips on the California state highway system than ever before—but the system has increased only marginally in capacity. According to a recent Caltrans study, while total travel on the highway system has increased 138 percent since 1964, the system's capacity has increased only 29 percent during the same period. Moreover, by 1995, the state's population will increase by 15 percent to 29.8 million people and vehicle miles of travel will increase by another 30 percent to 130 billion.

According the Caltrans, the number of deficient lane miles on the highway system will increase from 9,300 in 1984 to 17,000 in 1985 if no improvements are made beyond those already scheduled and funded in the 1984–1985 spending program. On the deficient portions of this system, average speed will drop from 42 mph to 30 mph with urban residents experiencing considerably more congestion during peak hours.

Mr. Chairman, the outlook for your district in the Los Angeles are is even gloomier. Even if revenues currently spent on the highway system were approximately doubled, only 7 percent of the deficiencies in the Los Angeles area could be resolved by 1995.

Mr. Chairman, other members of your Committee have similar pressures in their home districts. The desire to add special projects to highway legislation is a sympton of an indequate program level. The Federal-aid program is no longer meeting all these legitimate highway needs.

This Committee's time is too valuable to dwell on approval of a simple accounting measure, or the setting of an obligation limit.

We would hope you quickly resolve these matters and move on to what we all know is the important issue before the 99th Congress—namely the post-1986 highway program.

Questions to be addressed include: What are the needs? How should these needs be funded? How should costs be shared? What is the appropriate degree of Federal, state and local involvement?

The Federation stands ready and willing to direct its resources, and to work with you in resolving these questions.

TESTIMONY BY THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

AGC is: More than 32,000 firms including 8,400 of America's leading general contracting firms responsible for the employment of 3,400,000-plus employees; 109 Chapters nationwide; more than 80 percent of America's contract construction of commercial buildings, highways, industrial and municipal-utilities facilities; and over $100 billion of construction annually.

Mr. Chairman, I am James W. Supica, a highway contractor from Lenexa, Kansas. I am here today in my capacity as Chairman of the Highway Division of the Associated General Contractors of America. I am accompanied by Highway Division Staff Director John Gentille. Mr. Chairman, I have a lenghty statement which I would request be accepted for the record. My oral testimony will be a brief summary of the points made in that statement.

Transportation Secretary Dole has indicated in testimony before the Congress that the DOT's FY 1986 budget "contributes to the Administration's deficit reduction effort" by, among other things, proposing to establish an obligation ceiling for the Federal-aid highway program in 1986 at the 1985 level of $13.25 billion.

Under the 1982 Surface Transportation Assistance Act the 1986 obligation level has already been established at $14.45 billion. It has been established at that level based on the documented need for improvement of our nation's highway system. The Administration, therefore, is actually proposing a reduction in the Federal-aid highway program next year of some $1.2 billion. Even more disturbing, the Senate, in S. 391, is calling for an even greater reduction in program obligations next year. That measure would establish a $12.75 billion obligation ceiling in 1986, a $1.7 billion reduction from the program level called for in the 1982 Act.

Mr. Chairman, the size of federal budget deficits projected for the foreseeable future are indeed a cause for great concern. Federal deficits will not disappear overnight, and both the Congress and the Administration will have to come to terms with this very serious problem. The need for fiscal prudence is both obvious and real.

But in the rush to address the federal budget's imbalance, the country cannot afford the federal policy equivalent of throwing the baby out with the bath water. Reduction in transportation infrastructure spending will undermine the economic growth that this Administration is relying on to produce revenues to reduce the deficit.

The Transportation Department's budget proposes to engage in the illusory budgetary practice of using the current balance in the Highway Trust Fund as a deficit reduction tool. We label this practice as illusory because by not allowing the expenditure of Highway Trust Fund dollars, the Administration will not reduce government spending which is contributing to the deficit. It will merely delay the expenditure of dedicated revenues which have already been collected, are sitting in the Federal Treasury and which, by law, must ultimately be spent for highway improvements. Spending on our nation's highway system has never contributed a penny to the deficit. It cannot. User fees are collected from the nation's highway users, placed in the Highway Trust Fund and dedicated by law to be spent on the nation's highway system. The Highway Trust Fund is a very simple and efficient balanced budget account.

It must also be understood that some items in the budget are simply more economically significant in the long-term than others. An important case in point is investment in the nation's transportation infrastructure. The long-range impact on the nation of failing to go forward with vital transportation infrastructure projects will be disastrous, and not just from a physical plant standpoint but from an economic standpoint as well. This conclusion is not sensationalism; it has been validated by economic studies, several of which are discussed in depth in our submitted statement.

The loss to the economy of allowing continued deterioration of our transportation infrastructure—which the Transportation Department's proposed highway program freeze would allow for—has been clearly demonstrated, and those potential losses are measured by lost economic output, fewer jobs and lower consumer spending for each household.

These negative effects, enormous as they are, are only part of the costs which would be inflicted on the economy. Every infrastructure repair delay adds to the eventual cost of that repair. Judicious pruning of federal spending should be undertaken where the maximum savings can be achieved while sacrificing the least in terms of the country's future economic potential. Sacrificing proven and much-needed transportation infrastructure investments for illusory short-term deficit reduction gains—as the Administration's 1986 budget request proposes to do with regard to the Federal-aid Highway Program—will only serve to saddle future generations with a low-growth economy and create a transportation system burdened with much greater repair and replacement costs. Those future generations will be penalized, as they will at some point be forced to foot the much greater infrastructure repair bill they will inherit as a result of this generation's fiscal imprudence.

Mr. Chairman, we respectfully urge this Subcommittee to see to it that the planned-for and much-needed highway infrastructure investments called for by the landmark 1982 Surface Transportation Assistance Act are not eroded by counterproductive reductions in the Federal-aid Highway Program obligation ceiling.

BACKGROUND SUPPORT DOCUMENT

* * * *

THE INFRASTRUCTURE REALIZATION

America in Ruins, a landmark study of the decline of public facilities by economists Pat Choate and Susan Walter, sponsored by the Council of State Planning Agencies, was published in 1981. It was the first major comprehensive and statistically-supported review of the deteriorating condition of America's basic public facilities. The authors pointed out the downward trends of public works investment over the past 20 years. They quantified the effect of public works spending on the economy and recommended methods for improving public works financing. And they warned that failure to give attention to basic public facilities would prove to be a critical bottleneck to national economic revival.

Did America in Ruins overstate the evidence of neglect? No, because the findings of the study have withstood the test of time. The authors' premises cannot be refuted: America's public facilities are wearing out faster than they are being replaced. Replacement of obsolete public works is being deferred. New construction starts have been postponed or cancelled.

Although the total magnitude of the problem was not identified in America in Ruins, the study's conclusion specified the need for increasing public works funding to a level far above current spending levels. Potential sources of public works financing include user charges, debt-financing and dedicated taxes at state and local levels of government. Realistically, a blend of traditional and alternative financing strategies would be necessary to provide sufficient funding for an all-encompassing infrastructure rebuilding campaign. Anything less would be condemning America's public facilities to structural euthanasia.

Shortly after the release of America in Ruins, TIME magazine produced a theme issue entitled "Time to Repair and Restore". BUSINESS WEEK and NEWSWEEK also carried major stories about "The Decaying of America." Subscribers to U.S. NEWS AND WORLD REPORT were brought face to face with the bottom line - "To Rebuild America - a $2,500,000,000,000 Job" - and a cover photograph of a patched and plated roadway. Nightly newscasts carried the message in prime time.

Following the media attention, a variety of public and private organizations issued reports documenting the nation's infrastructure needs, with suggestions of ways to satisfy those needs.

The major studies which inventoried and projected national infrastructure needs all did so in different fashion depending on the definition of infrastructure used, the selection of basic resource material used to make projections, and the time frame addressed.

While these various studies were not consistent in the use of these variables, and consequently, not consistent in projections as to the magnitude of the infrastructure problem, without exception all the studies agreed that:

- o an inadequate national infrastructure system poses increasingly serious health, safety, and economic growth problems.
- o a significant shortfall in infrastructure funding exists.

That a substantial portion of the Nation's basic, publicly-financed infrastructure system is inadequate is no longer a matter of debate.

PROGRESS - AN EVALUATION

Although infrastructure may be imprecisely defined, and although acknowledged that addressing the repair and rehabilitation of our nation's public facilities is a complex issue with no easy, quick or inexpensive solutions, this does not erase the reality that America's essential public works are continuing to wear out faster than they are being repaired or replaced. Nor does it erase the reality that massive investments in the nation's public works are required and the longer these investments are delayed, the greater their direct and indirect costs will be.

An evaluation of progress to date in addressing the nation's highway, bridge and airport infrastructure needs is unfortunately not an optimistic one.

Recent State and Federal Funding Developments

The number of states that have increased highway funding in the past four years is impressive: 34 in 1981, 18 in 1982, 27 in 1983 and another 15 in 1984. The most recent average motor-fuel tax rate for all states is 11.6 cents-per-gallon, a 16 percent, or 1.6 cents-per-gallon increase in three years. Combined with the five cent Federal motor-fuel tax increase in 1983, it would appear that the funding dilemma plaguing the nation's roads and bridges is falling by the wayside.

Unfortunately, that's not the case. Huge backlogs of road and bridge repair needs continue to exist for a number of reasons. First, it is necessary to review the attitudes of many state and local governments toward highway repairs. Often they have found it convenient and sometimes unavoidable to put off until tomorrow road and bridge repairs which should be done today. Consequently, these deferred road and bridge repairs have taken their toll due in part to the ravages of time, climate and road use.

Secondly, although the state and the Federal government have acted recently to increase funding, such measures often have been more of the "stopgap" variety, rather than long-range, stable funding proposals allowing road agencies to eliminate repair backlogs as well as keeping up with present and future needs.

For example, even though Federal revenues for highway construction and repairs were increased by 50 percent in 1983, with the five cent increase in the Federal fuels tax (one cent goes to transit), and even though the Federal Highway Trust Fund, into which these revenues flow, now has well over a $10 billion cash balance, recent analyses by the Congressional Budget Office (CBO) have shown that current levels of highway program authorizations and Trust Fund revenues do not indicate long-term financial stability for the Fund. Authorizations currently exceed projected Trust Fund income by $2 billion to $3 billion a year, meaning that the current $10 billion cash balance will be eliminated by the end of 1989. Federal highway funding law would require, in that case, that apportionments of highway funds to the states be restricted starting in 1988.

Adding to highway funding problems has been the inability of Congress to approve an Interstate Cost Estimate (ICE). Congress' inaction has to date precluded the release to the states of $7 billion in already-authorized Federal-aid for highways and bridges, and has delayed the estimated completion date for the Interstate system.

This politicization of the Federal-aid highway program by Congress is violating the long-standing, sound financing procedures which underlie the Highway Trust Fund. It is unfair to America's highway users, and even harder to explain to them. Because of the inability of Congress to pass an ICE bill, much of ~~the~~ increased highway user fees Congress asked the public to pay in 1983 are not being made available for their intended purpose -- much-needed highway and bridge improvements.

Some states also are facing attempts to divert revenues traditionally dedicated to highways into other areas. Tax exemptions and reductions, especially for gasohol, are also creating a drain on highway revenues. Such problems have forced states to examine all methods of funding very carefully, still searching for that user-fee, sales tax or indexed revenue base which will provide a source of long-term, stable highway funding, vital to the surface transportation system.

Deterioration Continues

Highway and bridge deterioration continues at a critical rate even though progress has been made over the two years in improving the road systems. Bridge deficiencies continue to increase and highway departments still must compete for state and Federal revenues. The postponement of highway and bridge repair work still occurs all too frequently. Meanwhile, deterioration continues, while the costs of repair delays soar.

Highways

Periodic highway resurfacing can extend pavement life. But if unchecked, deterioration leads to a need for complete reconstruction, and work can cost six times more than resurfacing.

Today, an estimated 210,000 miles (10.5 percent) of the nation's two million miles of paved public roads and streets are in "poor" or "very poor" condition, according to engineering standards of the American Association of State Highway and Transportation Officials (AASHTO). This is a decrease of 1.2 percent from last year, which reflects increases in repairs. But, it is significant to note, some states have allowed many miles of paved roads to revert to gravel surfaces due to lack of necessary funding.

An additional 1.03 million miles (51.8 percent) of paved roads are rated only "fair" -- also a substandard category. Fair-rated mileage went down by 4.9 percentage points over last year. Although the percentage of deficient paved roads is lower than last year, the United States still has 1.25 million miles -- nearly two-thirds -- of all its paved roads which require surface repairs.

Even the Interstate System, which has the highest pavement condition and the best safety performance among the nation's roads, has been deteriorating. Ten percent (more than 4,000 miles) of the Interstate system has already reached its design life and needs immediate resurfacing. Over the next 15 years 40,000 miles of the 42,500 mile System will require either resurfacing or reconstruction

Bridges

Nationally, there are 260,306 "structurally deficient" and "functionally obsolete" bridges that account for 45.6 percent of the 571,246 bridges inventoried by the Federal Highway Administration (FHWA) in its 1984 "Fifth Annual Report to Congress: Highway Bridge Replacement and Rehabilitation Program." This is up from some 253,200 listed as deficient in last year's report. A total of 136,347 bridges (23.9 percent of the 571,246 inventoried) on the nation's public roads are classified "structurally deficient" in FHWA's report. This is an increase of 4,200 structurally deficient bridges over last year. These bridges are incapable of supporting the maximum vehicle weights allowed on connecting roads.

Another 123,959 bridges (21.7 percent) are labeled "functionally obsolete" in the report, 2,900 more than a year ago. Most were designed and built for the lower-volume traffic and lower speeds of the 1920s and 1930s. They also lack the clearance to handle the maximum size limits for vehicles using their approach roads. Many are single-lane bridges with hazardous approaches. More than 25,000 bridges still being used are more than 80 years old.

More than 156,500 U.S. bridges either have been or should be posted for reduced vehicle weights, according to the report. Another 3,653 spans have been closed to traffic. The total cost to replace or rehabilitate the Federally eligible deficient bridges to current standards is estimated at $45.4 billion. This represents a 7.2 percent decline in the cost to upgrade the bridges from last year's report. This decline is attributed to both the increased funding for bridges provided by the 1982 Surface Transportation Assistance Act that allowed many new bridge projects to begin and the competitive bidding process's favorable impact on highway costs. The cost to replace or rehabilitate the eligible bridges still, however, greatly exceeds the funds authorized for the bridge program.

The $45.4 billion repair figure, however, only reflects the costs of replacing and rehabilitating bridges which are eligible to receive funding from the Federal Bridge Replacement and Rehabilitation Program -- approximately 237,000 of the nation's 260,000 deficient bridges. The remaining 23,000 deficient bridges have not yet sufficiently deteriorated or are not of high enough priority to be eligible for Federal bridge program assistance. The $45.4 billion bridge repair figure also does not take into account costs associated with future bridge deterioration.

Old age is one of the greatest enemies of America's bridges. Although the average life of a U.S. bridge is 50 years, some 75 percent of the nation's bridges will reach that age or older by next year.

THE ECONOMIC COST OF CONTINUED NEGLECT

Overview

The definitive case for rebuilding America's transportation infrastructure rests on persuasive and overriding concerns for the public health and safety. While these issues are of paramount importance, the infrastructure's distinctive position as the base on which the nation's economic activity is built leaves no doubt that a continued shortfall of investment in public facilities will have extremely serious consequences for the nation's economy. The infrastructure is composed of a network of public capital goods which provide the foundation for a smoothly functioning economy when existing facilities are diligently maintained and when new investment keeps pace with the needs of growth.

Although the costs of meeting infrastructure needs are substantial, the economic effects of not meeting those requirements are even more serious. While not all of the results can be predicted, in the last few years, where possible, the costs of allowing fragments of the infrastructure to continue to deteriorate have been quantified. These efforts have produced the sobering information that an enormous portion of U.S. economic growth will be lost if steps are not taken immediately to rebuild the infrastructure.

There are a multitude of ways in which a deteriorating infrastructure can impact economic activity. As the term infrastructure encompasses a variety of public facilities which aid and support economic production, weak links in the infrastructure have various effects on the way businesses operate and grow. One of the most pervasive effects is that decaying infrastructure whether in the form of deteriorating roads or overcrowded airports, increases the cost of doing business. Every company and household is a user of the infrastructure, and each will see a steady increase in the costs they incur as the quality of service provided by public facilities declines.

One way to analyze the added costs resulting from declining levels of service is to measure the costs associated with each particular system in the infrastructure as it has deteriorated. But more importantly, because all public goods and services are intertwined in the economic fabric of the nation, diminished service levels result in a far greater economic loss. The most comprehensive analysis to date of this dependence of the economy on the infrastructure has been "Highways and the Economy," a study sponsored by the Federal Highway Administration, to be discussed in detail later.

Beyond the immediate costs of an impaired infrastructure to the families and businesses that rely on it are the rising costs of delayed but necessary repair or new construction. Inflation will continue to increase the level of funding needed to put in place new construction, and deferred maintenance will often dramatically boost the cost of repair. Infrastructure inadequacies produce constraints on economic developments, leading to inefficient business decisions. And with each delay, each year in which action is avoided by yet another bureaucratic tangle or legislative impasse, these costs become even greater.

Stacked against the costs of inaction are the huge expenditures needed to rebuild and restore the infrastructure. While at first glance the very enormity of the problem discourages action, the uncommonly productive nature of the construction industry means that increased infrastructure investment translates directly into more jobs and higher output for the entire economy.

Two recent studies, one from Data Resources, Inc., an economic consulting firm in Lexington, Mass., and the other from Dr. Douglas M. Brown, chairman of the Economics Department of Georgetown University, explored the depth of the relationship between construction and the rest of the economy. Dr. Brown finds that "Construction/investment spending is an engine of economic growth in both the short and long run." There is positive evidence that the economy will experience very beneficial income and employment effects from investment in infrastructure projects. These economic benefits will go a long way toward offsetting the expense of the needed investment.

Deteriorating Infrastructure Systems Add to the Costs of Users

Inadequate public facilities exact economic costs from users as infrastructure systems deteriorate or fail to keep pace with the demands of economic growth. As attention has focused on some of these problems in recent years attempts have been made to quantify the costs resulting from a deficient system or inferior facilities.

In the transportation sector these costs are easier to measure than in other areas. Airport congestion in only one year, 1980, is estimated to have cost the airlines an extra $1 billion in crew time and fuel, wasted 700 million gallons of jet fuel, and delayed passengers by 60 million hours. The Congressional Budget Office estimates that unless steps are taken to remedy the congestion problem by adding effective airport capacity these costs could double within five to ten years.

The added costs of using deteriorating highways and bridges have also been documented. Deficient roads dramatically increase vehicle operating costs whether it be a small auto or a five axle truck. Fuel consumption varies with the quality of road conditions: studies have shown that pavement condition can make a 10-30 percent difference in a vehicle's fuel efficiency. Each one percent increase in fuel efficiency reduces fuel consumption enough to save the economy over $1 billion annually. In addition, bad roads increase the wear and tear on motor vehicles and cause them to wear out faster. A summary of the increased vehicle operating costs attributable to highway deficiencies is provided in the following table. The annual cost is an estimated $27.56 billion at mid-1984 prices, including $21.20 billion of extra motor fuel and $6.36 billion in repair costs for damage to brake, steering and suspension systems, and excessive tire wear.

Costs to Users of Deteriorating Roads and Bridges

Percentage of Road Deficiencies		Percentage of Bridge Deficiencies	Wasted Vehicle Operating Costs
1982	63.7%	44.6%	$187 per driver
1983	68.4	44.8	$191 per driver
1984	62.3	45.6	$185 per driver

SOURCE: The Road Information Program, "State Highway Funding and Methods: An Analysis and Update, September, 1984.

An important point is that road conditions deteriorate at an increasing rate as highways approach their design age and repairs are postponed. Because of the speed at which highways move from the "Fair" to "Poor" and "Very Poor" categories, neglected highways will very quickly have a major impact on the operating costs of motor vehicles.

The Hidden Economic Costs of Deteriorating Roads Have Been Quantified

When a seemingly isolated portion of the infrastructure such as a bridge or highway deteriorates the increased burden or cost to individuals and businesses who are the actual users can be clearly seen. What is less obvious is the cost to the entire economy when any part of the infrastructure falls into disrepair.

The importance and prevalence of the connection between failing infrastructure and economic activity can, however, be readily seen by examining several studies which assess the loss to the economy of bridge closings and deteriorating highways. A study by the Pennsylvania Economic League reported the negative impact deficient bridges had on the Pittsburgh economy. The study concluded that in this one six-county area the detours resulting from closed bridges cost the public an additional $38.5 million per year.

The local impact of one isolated case pales in comparison to the economy-wide effects. Detours, bridge closings, and poor pavement conditions which add to vehicle operating costs directly lead to an increase in the cost of producing and shipping goods transported via the highway system. These increased costs are in most cases passed directly on to the consumer; and without their knowledge, consumers are paying an economic premium for the deficient state of the nation's highways.

A more comprehensive study utilizes two economic models to put a dollar figure on the cost to the entire economy of this connection between the condition of roads and bridges and the economy. In 1983 the U.S. Department of Transportation in conjunction with the Transportation Systems Center released a study which concluded that deteriorating highway performance would have a very serious negative impact on the performance of the national economy as measured by gross national product (GNP), productivity, and other indicators.

The overall effect of deteriorating highway performance is to reduce economic welfare dramatically by reducing production, employment, disposable income, consumption, productivity, and by increasing inflation. The following table illustrates the change from the base case (1978 service levels) when highways are allowed to deteriorate.

In 1995 Deteriorating Highways

Will Negatively Impact the Economy

	Economic Variable	Change from Base Case (in percent)
1.	Gross National Product	- 3.2
2.	Implicit GNP Deflator	+ 5.3
3.	Consumer Price Index	+ 8.0
4.	Disposable Income	- 5.9
5.	Consumption Expenditures	- 3.6
6.	Gross Private Domestic Investment	- 1.3
7.	Employment	- 2.2
8.	Labor Productivity in Manufacturing	- 2.7
9.	Labor Productivity in Non-Manufacturing	- 3.6
10.	Imports of Goods and Services	- 3.1
11.	Exports of Goods and Services	+ 0.3

SOURCE: Highways and the Economy, Staff Study, U.S. Department of Transportation and Transportation System Center, January, 1983.

To further explain the magnitude of the loss to the economy, these statistics can be examined in detail. For instance, the above table indicates that the gross national product in 1995 would be 3.2 percent lower under deteriorating road conditions than if 1978 highway standards were maintained. The loss of GNP in each year between 1983 and 1995 amounts to a cumulative total of $766 billion (in 1983 dollars) by 1995. The immense size of the lost economic production becomes evident by noting that the entire U.S. economy did not produce that much in 1940. The lost GNP would equal all manufacturing production in 1978. Clearly deteriorating road conditions have extremely serious implications for all sectors of the economy.

What would this mean to the average household? The study estimates that the average household would have 3.6 percent less to spend in 1995 due solely to the effects of deteriorating highways. This 3.6 percent decline in personal consumption expenditures means that each household will spend approximately $1,227 less (in 1983 dollars) on consumer goods in 1995 than if 1978 highway service levels were maintained. Using an input-output analysis the distribution of the spending reduction can be calculated. The major reductions in spending are itemized in the following table. The widespread detrimental economic effects are clearly immense.

In 1995 the Average Household's Spending Will be Less Due to
Highway Deterioration
(1983 Dollars)

Category of Household Purchases	Dollar Value of Spending Decline
Food	$117
Household Furnishings	75
Clothing	55
Medical Care	187
Transportation	252
Entertainment	94
Services	83
Total (including categories not itemized)	1227

SOURCE: *Highways and the Economy*, Staff Study, U.S. Department of Transportation and the Transportation System Center, January, 1983.

Delays in Rebuilding Infrastructure Add to the Cost

With each delay a still higher level of funding is needed to meet infrastructure needs. First, the price level of the materials and supplies used in construction continues to rise year by year, increasing the cost of infrastructure investment. Secondly, the delay in meeting current needs, particularly deferred repair and maintenance expenditures, leads to far higher costs in later years as the infrastructure deterioration accelerates and more expensive work becomes necessary. Both of these factors strongly support the old adage "Time is money." In the infrastructure area, each delay will mean an added burden down the line, or if successive postponements are encountered, an unconscionable legacy for the next generation.

From 1973 to 1983, the cost of new construction rose at an average annual rate of 12.6 percent as measured by the composite cost index of the Department of Commerce. Another measure of cost increases is the Bureau of Labor Statistics' producer price index. Over the same ten years the producer price index component that calculates the level of prices of materials and supplies used in construction increased at an average annual rate of 11.5 percent. To translate these figures into meaningful terms, each six years the cost of new construction doubled. Although prices are advancing at a more moderate rate in the 1980's than in the 1970's, cost advances will continue at some pace. But even if the rate of inflation in construction costs were cut to half of the level seen in the past ten years, construction costs would still double in under twelve years.

Deferred maintenance results in a dramatic increase in capital expenditure needs for most infrastructure systems. For example, evidence has been assembled on highway pavement life and the impact of deferred maintenance expenditures. Most highway pavements have a design life span of 15 to 20 years, but after 10 to 15 years of use the pavement reaches a critical stage where repair and maintenance are vital. If maintenance is postponed at this point in the pavement's life, the cost of repair increases exponentially. The Department of Transportation has estimated that if no capital investment were made to the existing highway system between 70 and 90 percent of mileage would be in "poor" condition within 15 years and would require replacement. When pavement deteriorates to the point where repair is no longer viable and resconstruction must occur, then $6 will be needed for reconstruction for every $1 not spent in repairs. The same phenomenon applies to airport runway pavements. Other infrastructure systems have similar factors at work.

In addition to the direct cost increases which result from delays in making infrastructure investments, inaction can have an indirect economic impact on communities, states, and the nation. Economic development can be severely constrained by the deterioration of existing support systems and insufficient investment in new facilities to meet growth needs. The network of services provided by a community's public roads and other transportation facilities are the base on which businesses operate. Without sufficient investment to meet growing needs a community or state is at a disadvantage in attracting and retaining businesses. The U.S. Department of Commerce surveyed over 2,000 firms in 250 industries in the mid-1970's, and concluded that in almost every case the availability of a good road system was a prerequisite for the firm's investment in a particular location.

ECONOMIC BENEFITS CAN OFFSET COST OF INFRASTRUCTURE INVESTMENT

While the nation's infrastructure requirements are clearly large, recent studies have revealed that the economy will definitely benefit in a number of very important ways from infrastructure investment. The economic growth stimulated by the additional funding of unmet needs would translate into increased gross national product, higher employment and increased productivity with a negligible increase in inflation.

An October, 1984 study from Data Resources, Inc., an economic consulting firm headquartered in Lexington, Massachusetts, assessed the economic impact of an annual $10 billion, six-year increase in infrastructure investment. Although the increase would represent only about 10 percent of the annual shortfall in investment in infrastructure, Data Resources, Inc. (DRI) found that substantial benefits would flow from the added investment. The major conclusions of the DRI study, America's Infrastructure: Effects of Construction Spending, Study of a $10 Billion Annual Infrastructure Investment, are:

- The gross national product would increase by $141 billion as a result of the $60 billion (cumulative) investment (measured in constant 1984 inflation-adjusted dollars). The DRI study shows that construction spending is a particularly potent force driving the economy forward, as each $1 spent on federal construction generates $2.35 in goods and services purchased throughout the economy. Construction spending is quickly passed along to suppliers and employees, who then in turn spend most of the additional income. The importance of the construction spending continues to grow until at the end of the "multiplier" process, the economic value of the goods and services purchased has grown to 2.35 times the initial investment, more than double the original cost of the program.

- The increased infrastructure investment would result in widespread employment gains, adding 1,927,900 jobs to the economy from 1984 to 1990. Of those, 1.1 million or 58 percent would be contract construction jobs. The remaining 42 percent would be distributed throughout other industries, with 170,700 jobs in manufacturing, 182,800 in the service sector, and 201,400 jobs in wholesale and retail trade.
- Added investment in the nation's infrastructure would have an expansionary impact on not just construction but would spur production in a broad range of industries. DRI estimated that industrial production as a whole would increase .3 percent above the baseline economic forecast in 1985 and 1986, slow to a .2 percent rise in 1987 and 1988, and taper to a .1 percent increase in 1989 and 1990 for a 1.2 percent cumulative increase over the six-year period. While production in most industries gains 0.2 percent, for certain individual industries listed below the gains are larger. Business and construction equipment, electrical machinery, plastics, electrical components, and communications equipment experience especially strong gains. The primary metal industries also show large production increases due to the infrastructure program.

Industrial Production: Big Gainers
(Percent Change vs. Baseline forecast)
1984-1990

Total Production	1.2
Big Gainers	
Basic Steel and Mill Products	4.3
Iron and Steel Foundries	2.7
Communication Equipment	4.8
Construction and Allied Equipment	3.0
Synthetic Materials	1.8
Plastic Products	1.7
Textile Mill Products	2.0

SOURCE: Data Resources, Inc., America's Infrastructure: Effects of Construction Spending, Study of a $10 Billion Annual Infrastructure Investment, October, 1984, and the Associated General Contractors of America.

o DRI's study shows that the $10 billion annual, six-year expenditure would not rekindle inflation for several reasons. First, the contract construction industry has a tremendously high unemployment rate, which has exerted downward pressure on wage levels in the recent past. Therefore, an increase in construction activity would be unlikely to bring about inflationary wage increases. In addition, increased construction for infrastructure projects lays the groundwork for future economic growth. "Clearly the public capital stock (roads, bridges, locks, etc.) is a necessary condition for economic growth," notes Dr. Douglas M. Brown, Chairman of the Department of Economics at Georgetown University, Washington, D. C. in a foreword to the study. By increasing the potential output of the private sector in future years, this investment will work to prevent inflationary price pressures in the future.

The DRI model predicted four inflation measures: 1) the GNP implicit price deflator; 2) the personal consumption expenditures implicit price deflator; 3) the consumer price index; and 4) the wholesale price index. While the rates of inflation rise slightly, the increase is not enough to change the predicted inflation rate. The rates of inflation are identical in the construction simulation and the baseline DRI forecast, indicating that the spending program would be non-inflationary.

o The added investment would generate a dramatic increase in current dollar gross national product (nominal GNP) earning additional tax dollars for the government that partially offset the cost of the program. DRI found that an additional $10 billion annual investment would raise nominal GNP (output not adjusted for inflation) by $15 billion in 1985. By 1990, the annual increase in GNP would be up to $38.2 billion. The output growth initially generates one-third of the program cost in tax revenues.

Another study which analyzed the benefits which would flow to the entire economy from an increase in investment was Construction/Investment Spending An Engine of Economic Growth - Underinvestment and Economic Growth in the U.S. by Dr. Douglas M. Brown. This report, released in October, 1984, concluded that the U.S. economy missed out on $350 billion in gross national product between 1975 and 1982 because of insufficient capital investment.

Dr. Brown, Chairman of the Economics Department at Georgetown University, found that capital spending declined from 15.9 percent early in the 1970's to 14.6 percent of GNP in the 1975-1982 period. This underinvestment had a profound impact on the national economy because the construction industry is unusually productive in generating work for the other sectors of the economy that supply the materials and machines needed.

If the United States had invested the same percentage of resources in the 1975 to 1982 timeframe as were invested from 1970 to 1974, an additional $18 billion per year would have been channeled into investment/-construction spending. Dr. Brown estimates that in the short-run this $126 billion over seven years could have generated $200 billion in economic output (gross national product) which has now been lost to the economy. While this estimate may be high as volatile interest rates may have choked off some of the expansionary effect, the fact remains clear that a sizeable loss to the economy did occur as a result of the nation's underinvestment in construction during the 1975-1982 period.

The short-run estimate above does not include changes in the capacity of the economy to grow. Steady investment increases the capacity of the economy while introducing new technologies and spurring non-inflationary growth. When capacity increases triggered by the increased construction are allowed to occur, the impact of the underinvestment is greater. In fact, Dr. Brown asserts that the U.S. lost $350 billion in gross national product, or $50 billion per year, from 1975 to 1982.

Dr. Brown calculated that when the long run effects of construction investment to increase potential output are taken into account, investment in the construction of office buildings, factories, highways, utilities and other structures results in $2.80 of economic activity for every $1 invested in construction leading to Dr. Brown's conclusion that "construction/investment spending is an engine of economic growth in the short and long run."

CONCLUSION: CAN WE AFFORD TO? OR CAN WE AFFORD NOT TO?

What happened to the grand infrastructure effort? Economist Pat Choate, co-author of the 1981 "America in Ruins" provides an answer:

"In public policy, fashionable issues come and go almost as quickly as haute couture. Today's trend-setter quickly becomes tomorrow's ignored issue."

Infrastructure is a recent example of a once fashionable, but still too much ignored, public policy issue. As recently as early 1981, infrastructure was still an exotic, unfamiliar, technical term used primarily by economists as a synonym for public works such as bridges, water systems, ports, sewerage treatment facilities and airports. By 1982, however, infrastructure had become the rage in economics and public policy.

But even more quickly than it became fashionable in 1982, the infrastructure issue was forgotten in 1983, reemerging only briefly with the collapse of a bridge on Interstate 95 in Connecticut in June of 1983. What developed was a federal deficit of over $200 billion stretching as far as the body politic could see. At the same time, several government and private organizations were estimating that $1-$3 trillion would be needed during the next 10-20 years to repair and rehabilitate the nation's vital infrastructure. Irrespective of whether the actual requirements were closer to $1 trillion or $3 trillion, the political consequences were the same: increased spending at a time when the President and Congress were caught in a historic political gridlock over taxes, spending and deficits. Unable to finance these needs through traditional means and caught in a fundamental reshaping of the national government's role in the federalist system, most political leaders turned to other issues.

The question then has become one of can the nation afford to move ahead on an infrastructure rebuilding program.

The answer, judging by the insufficient action of recent years is no.

AGC believes that question, however, is the wrong one.

The size of the federal budget deficits projected for the foreseeable future are indeed a cause for concern. Federal deficits will not disappear overnight, and both the legislative and executive branches will have to come to terms with the problem. The need for fiscal prudence is obvious.

But in the rush to address the federal budget's imbalance, the country cannot afford the federal policy equivalent of throwing the baby out with the bathwater. Some items in the budget are more significant in the long-term than they appear on the surface. An important case in point is infrastructure investment. The long-range impact on the nation of not going forward with vital transportation infrastructure projects would be disastrous. And this conclusion is not sensationalism, it has been validated by the results of numerous economic studies.

The loss to the economy of allowing continued deterioration of our transportation infrastructure has been demonstrated, and the potential losses as measured by lost economic output, fewer jobs, and lower consumer spending for each household are colossal. The Federal Highway Administration - Transportation Systems Center Study of Highways and the Economy concluded that allowing roads to deteriorate would cost $766 billion in lost gross national product (1983 dollars) through 1995. This loss amounts to one-fifth of the size of the economy in 1981, and twice all local and state government spending in 1981.

These negative effects, enormous as they are, are only part of the costs which would be inflicted on the economy. Every delay adds to the costs, and the sheer magnitude of the infrastructure investment needed will grow exponentially if action is not taken soon.

Judicious pruning of federal spending should be undertaken where the maximum savings can be achieved while sacrificing the least in terms of the country's future potential. Sacrificing infrastructure investment for short-term gains can only serve to saddle future generations with a low-growth economy.

The transportation infrastructure is the basis for all our nation's economic activity. Adequate investment in it is now essential to its future existence.

The question of whether the nation can afford to move ahead with infrastructure rebuilding is the wrong question.

The correct question is "Can we afford not to move ahead with increased investment in our nation's infrastructure?"

AGC believes the answer is we cannot.

STATEMENT OF THE AMERICAN ROAD TRANSPORTATION BUILDERS ASSOCIATION, PRESENTED BY EUGENE M. JOHNSON, ARTBA TREASURER

My name is Eugene M. Johnson, and I am here today representing the American Road & Transportation Builders Association, of which I am the Treasurer. Formerly, it was my pleasure to serve as the President of the Asphalt Institute and earlier as Chief Highway Engineer of the State of Mississippi.

The 4,500 members of ARTBA are vitally concerned with all aspects of transportation construction. Our members include construction contractors, public officials at all levels of government, planning and design consultants, equipment manufacturers, materials producers and suppliers, businesses in the traffic safety industry and educators. Our membership is truly a cross-section of the entire transportation construction industry and the transportation engineering profession.

Before addressing the subject of today's hearing, allow me to commend the committee for its recent action in reporting a clean bill to approve a new Interstate Cost Estimate, providing 18 months of apportionments which are long overdue. As members of this committee are well aware, the programs supported by these funds are vitally important to the development of the efficient transportation system required for our economic development, the national defense and the safety of both passenger and freight movements.

It is hardly necessary to remind the members of this committee that the Federal-aid programs supported by the Highway Trust Fund and the Airport and Airway Trust Fund are paid for in advance.

This situation makes them almost unique in the universe of Federal activities. In general, the Federal government is operating on borrowed money. Federal deficits, I can assure you, are a matter of deep concern to our members. While we are by no means homogeneous in our political beliefs and party loyalties, we are alike in our firm conviction that the Federal government cannot operate indefinitely with huge annual deficits.

As of December 31, 1984, the cash balance in the Highway Trust Fund exceeded $10 billion and the cash balance in the Airport and Airway Trust Fund exceeded $7 billion. This money should be put to work. The revenues have been paid into the Treasury by highway and aviation users for the purpose of improving transportation facilities.

We do not agree that this $17 billion ought to be kept in the Federal Treasury as an offset against the national debt. It is money which is dedicated to specific programs and it remains so dedicated. By failing to pay out the money, the Federal government does, indeed, improve its cash flow position. However, it is only a matter of borrowing from Peter to pay Paul and it is not sound fiscal policy.

As a general principle, governments should not spend money that they do not have. The converse is equally true: Governments should not collect money designated for a specific purpose and then refuse to spent it. With these general principles in mind, we offer the following comments on the Administration's Fiscal Year 1986 budget proposal:

Highways

The Administration is proposing to "freeze" the Fiscal Year 1986 obligation ceiling at the Fiscal Year 1985 level. The FY 1985 level is $13.25 billion. The level proposed for FY 1986 in Sec. 104 of the 1982 Surface Transportation Assistance Act is $14.450 billion, or $1.2 billion more than the Administration proposal.

As I have already indicated, the Highway Trust Fund is in a strong cash position. It finished Fiscal Year 1984 with a cash balance of $10.210 billion. Current projections indicate that the cash balance will increase to $10.5 billion by the end of Fiscal Year 1985.

We see no logical reason to freeze the Federal-aid highway program level at an arbitrary figure which is below the financial capability of the Highway Trust Fund.

The Byrd Amendment to the 1956 Highway Act prevents apportionments which are in excess of the estimated capability of the Highway Trust Fund. That provision of law is an effective prohibition against deficit spending within the Highway Trust Fund.

ARTBA believes that further fiscal limitation on Highway Trust Fund spending are unnecessary. We oppose highway obligation limitations, and, more specifically, we oppose the application of the "budget freeze" to the highway program.

Public transit

The 1982 STAA provided for a Mass Transit Account within the Highway Trust Fund as a dedicated source of funding for transit capital programs. This dedicated-source program is currently authorized at a level of $1.1 billion per year. The Administration's budget supports that level.

We agree with the members of this committee that the level could be somewhat higher, based on a higher-than-anticipated flow of revenue into the Mass Transit Account. We should not store up money in the Mass Transit Account.

The Administration is proposing to bring to an end the other elements of the urban mass transportation program, principally operating subsidies.

The ARTBA Statement of Policy states that General Fund support for transit programs should be "at least equal" to the support derived from the Mass Transit Account of the Highway Trust Fund. In Fiscal Year 1985, the General Fund support is about three times the support from the Mass Transit Account. We would tend to favor an adjustment of the transit program, over a period of time, to phase out operating subsidies and concentrate the Federal role in the capital grant area.

I must make it clear that we are strongly opposed to a proposal currently being discussed to increase the Federal motor-fuel tax in order to provide more money for the transit program. No further diversion of Federal motor-fuel revenue to mass transit should be permitted. A resolution on this subject adopted by the ARTBA Board of Directors last month is attached to this statement.

Aviation

The Administration's budget proposal allows for $1.017 billion for Airport Improvement Program grants in Fiscal Year 1986, which is exactly equal to the amount authorized for Fiscal Year 1986, which is exactly equal to the amount authorized for Fiscal Year 1986 in the 1982 Fiscal Responsibility and Tax Equity Act (P.L. 97-248). This level is $92 million more than the amount provided for Fiscal Year 1985. However, some of the money authorized for prior years was never appropriated. Thus, even with the relatively generous amount allowed in the budget for Fiscal Year 1986, the program is not moving forward as rapidly as Congress anticipated.

A thorough review by Congress is needed. There can be no doubt that greater emphasis is needed on the improvement of airports and other elements of the national aviation system, or the fact that money is accumulating in the Airport and Airway Trust Fund at a phenomenal rate.

In cooperation with other transportation-oriented associations and business concerns, ARTBA is now preparing "ATAC III"—the third edition of the transportation needs report of the American Transportation Advisory Council. We look forward to present this report to this committee when you address the issues involved in the Transporation Programs beyond Fiscal Year 1986.

Mr. Chairman, we appreciate this opportunity to present testimony and welcome further opportunities to discuss our national transportation program with you.

ARTBA RESOLUTION

Whereas the fund mechanism for the Federal-aid highway program is a user fee primarily derived from 9 cents per gallon tax; and

Whereas the users are now allowing the diversion of one penny of the gasoline tax for the construction of public transit facilities; and

Whereas the American Public Transit Association has recently proposed adding another 5 cents to the Federal gasoline tax with 4 cents going to the construction program of Federal transit assistance.

Be it therefore Resolved that the American Road & Transportation Builders Association opposes the intitiative of APTA to increase the gasoline tax when the future funding needs of the Federal-aid highway program have not yet been met and funded.

(Approved February 5, 1985 by the ARTBA Board of Directors at Longboat Key Club, Florida.)

IMPACT OF THE ADMINISTRATION'S SURFACE TRANSPORTATION BUDGET PROPOSALS FOR FISCAL YEAR 1986

WEDNESDAY, MARCH 20, 1985

House of Representatives,
Subcommittee on Surface Transportation,
Committee on Public Works and Transportation,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:45 a.m., in room 2167, Rayburn House Office Building, Hon. Glenn M. Anderson, (chairman of the subcommittee) presiding.

Mr. Anderson. The meeting of the subcommittee will come to order.

The subcommittee is pleased today to welcome Secretary Dole and her modal administrators for a discussion of the budget which has been submitted to the Congress.

I should say first that I have the greatest respect for the Secretary and for each of today's witnesses. The leadership at the Department of Transportation is a good one. It is the product that they are here to sell, however, that I think is terrible.

This administration was returned to office by a rather strong vote in November, and people usually get what they vote for. I am convinced, that with respect to surface transportation, the people of this country did not vote for the budget that is before us. The people voted, rather, for the administration that gave them the Surface Transportation Assistance Act of 1982, for the leaders who stood up and hailed its passage as a landmark in American transportation history.

The people of America voted for an administration that supported $14.4 billion in highway obligational authority in fiscal year 1986, not an administration that would reduce that level by $1.2 billion. Because people feel that if they are to pay a highway user tax, then their tax should be used for highways. They did not vote for an administration that would store up their highway taxes while their highways needed work, and they do not want to declare victory and retreat from the completion of the Federal Interstate Highway System.

Federal operating assistance for transportation was part of the Surface Transportation Assistance Act. It was part of the bill that Congress passed and the President signed, part of a package. It is not a part of this budget.

This administration worked for and signed legislation that would help transit properties recapitalize and, in growth areas, expand

and build new systems. With this budget, there will be no transit grown communities. There will be communities where transit withers and others where it dies. And just as we have seen cities and towns prosper with the development of transit, now we will see them decline.

In retrospect, this administration's support for the Surface Transportation Assistance Act which became law with the President's signature just 26 months ago, was a tragic joke. It held out the promise for so much, but the administration now wants to break that promise.

This subcommittee participated in making that promise to the American people, and we will not now participate in breaking it. So, we will surely not act upon any proposal submitted by the administration necessary to implement its budget request.

I am from an older school of government and politics where you make commitments and keep commitments. Because the only way you can work with someone tomorrow is if you are delivering what you said yesterday.

I want to work to improve, not dismantle, transportation in this country. I don't believe anyone can tell me that the budget request that we are considering will benefit transportation.

This is not a transportation budget. It is an antitransportation budget and I am sorry that we even have to consider it. Mr. Shuster.

Mr. Shuster. Thank you very much, Mr. Chairman.

Mr. Chairman, I want to join with you, at least for the first part of your comments, in welcoming the distinguished Secretary and her associates to this committee.

I think America is blessed that it has such a distinguished public servant as Elizabeth Dole, Secretary of Transportation. She is able, articulate and, in my many dealings on transportation matters with her, she has always been totally on top of the situation. I also want to commend her for her good judgment in surrounding herself with so many first-class people.

I have had the opportunity of working closely with Administrator Barnhart on highway matters and he certainly does a first-class job administering that program. I have worked very closely with Administrator Stanley on public transit issues and he too has always been most responsive.

Just yesterday I met with several key people from Administrator Steed's agency, NHTSA. They were most helpful. I think we're on the track of putting together a first class highway safety project to motivate Americans to buckle up and to be more safety conscious as they drive their automobiles.

I refer the so-called Section 209 Program which I authored a few years ago. We're about to kick off a major Safety Program as a result of that and I hope that the dividends from that are going to be the saving of hundreds, if not thousands, of lives in America.

So, having said all of that, I do indeed associate myself with your remarks concerning the very high quality of the people who are running our U.S. Department of Transportation.

I also must associate myself with you, at least to the extent of expressing my concern over the budget which has been sent to us.

In 1982, we passed the landmark transportation legislation, the Surface Transportation Assistance Act, providing higher authorizations for Highway and Transit Programs and, most importantly, passing a 5 cent per gallon gasoline tax.

I think it is absolutely imperative that we use those user-tax dollars for the purposes intended, that of spending them to improve American's highways and transit systems. I am concerned about the budget in this regard, and I think we're going to have to look very carefully at the proposals which have been sent to us.

For example in the mass transit area, funding as a whole would be reduced by about 67 percent and I think that reductions of this magnitude deserve the most careful scrutiny.

We had testimony last week from several of the various interest groups all expressing a great concern about the budget. My concern, like theirs, goes to the possibility of a very substantial departure from congressional intent as stated in the Surface Transportation Assistance Act.

So, with all of those concerns, coupled with the enormously high regard I have for the Secretary and her associates, I look forward to these very important hearings.

Thank you.

Mr. ANDERSON. Any other member? Mr. Snyder.

Mr. SNYDER. Thank you, Mr. Chairman.

I just want to say, welcome, to the Secretary and her cadre of associates.

Mr. ANDERSON. Mr. EDGAR?

Mr. EDGAR. Mr. Chairman, I too would like to welcome the Secretary today and I look forward to an opportunity to share in some comments as well as some questions, after your statement.

I think that these hearings today are critically important. When you look at the 66-percent reduction that is being proposed by the administration, in public transit dollars, it's very troubling and I would be interested in hearing the Secretary's comments as to what the Department of Transportation was really thinking and whether or not you actually believe that State and local governments, or the private sector, will be able to make up the shortfall and what its impact is going to have on some of the rural systems that have just put their transit authorities in place, as well as the urban metropolitan centers.

But, I will save my specific questions for the question time and I want to congratulate the Secretary on her leeadership in the Department of Transportation and while we have differences of opinion in terms of this budget, I respect her leadership there.

Secretary DOLE. Thank you.

Mr. ANDERSON. No further comments. Madam Secretary, the floor is yours.

Mr. KOLTER. Mr. Chairman, I too, would like to thank Mrs. Dole for appearing here this morning. I know the time restraints she has and how busy her schedule is.

So, in the interest of saving time, I would like to ask unanimous consent to submit my statement for the record and then to revise and extend my remarks.

Mr. ANDERSON. No objection. So ordered.

[Mr. Kolter's statement follows:]

STATEMENT OF HON. JOE KOLTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Secretary Dole, I am deeply concerned about the administration's proposed fiscal year 1986 budget cuts in the Urban Mass Transportation Program. In particular, the Beaver County Transit Authority, a small transit provider in my district, has a great need for Federal transit assistance and any cut in this funding cannot be met by the State and local governments which have already reached their financial limits. Therefore, I feel that since there has been a strong partnership over the years between the Federal and local governments to public transit, this bond should not be broken.

Mass transportation is an integral part of our Nation's transportation infrastructure and the budget presented by the administration has clearly targeted mass transit to share a disproportionate share of the budget cuts.

It is absolutely imperative that studies be conducted on a Federal level to closely examine the impact of the elimination of operating assistance to transit operators and smaller operators in particular.

In addition, the elderly, the handicapped, and the disadvantaged will undoubtedly suffer dire consequences for these indiscriminate and unscrutinized cut-backs. We must clearly study the effects of any budgetary reductions however small and wherever they exist. By not doing so we are ignoring the very people who we are sworn to represent and, in the end, will cause them great harm.

Section 9A funding affecting urbanized areas, section 18 funds assisting nonurbanized areas and section 16(b)(2) funds impacting the elderly and the handicapped, all have an intrinsically vital place in the stability of our nation's infrastructure and the well being of our citizens. We cannot ignore the importance of these funds just as we cannot ignore the needs of the elderly and handicapped.

Mr. ANDERSON. Madame Secretary, the floor is yours.

TESTIMONY OF HON. ELIZABETH HANFORD DOLE, SECRETARY, DEPARTMENT OF TRANSPORTATION, ACCOMPANIED BY DON DERMAN, ASSISTANT SECRETARY FOR BUDGET AND PROGRAMS; HON. RAY BARNHART, ADMINISTRATOR, FEDERAL HIGHWAY ADMINISTRATION, ACCOMPANIED BY LES LAMM, DEPUTY FEDERAL HIGHWAY ADMINISTRATOR; HON. RALPH STANLEY, ADMINISTRATOR, URBAN MASS TRANSPORTATION ADMINISTRATION; HON. DIANE STEED, ADMINISTRATOR, NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION

Secretary DOLE. Thank you, Mr. Chairman. I am delighted to have this opportunity to appear before you today. Let me just say, first of all, how much I appreciate your understanding in rescheduling this hearing after I was ill the week before last. I very much appreciated your courtesy in that respect and I am pleased today that we have an opportunity to focus on the Department's fiscal year 1986 budget as it affects highways, highway safety, and transit. I understand that you do have a number of questions and I look forward to working through this with you and also to working with you after these hearings.

This request does reflect my personal commitment to the policies and the transportation goals and initiatives supported by this administration over the past 4 years.

You have always been very gracious when I have appeared before you. I am delighted to have a chance to say how much I appreciate the leadership that you have shown in advocating user fees for programs under our jurisdiction. We are attempting to increase the user fees in this fiscal year 1986 budget and, indeed, I appreciate all that you have done to work with us in that respect in the past.

With me today is Assistant Secretary for Budget and Programs, Don Derman. As you have mentioned, Mr. Chairman, three of our Administrators are here and will be presenting a panel discussion after my presentation, so you have all of our experts who will be available to respond to questions.

I want to thank you also for your leadership in the passage of a clean ICE bill. Obviously this is extremely important legislation. The President signed it into law last week and DOT has released to the States approximately $7 billion in highway and transit funds. As we urged, this legislation did not create costly new spending authorizations or change the legal status of any highway project and it is, therefore, consistent with the President's budget.

Now, the underlying theme of our budget is the proper role of the Federal Government in transportation at a time when we face the critical problem of reducing the Federal deficit. I think, Mr. Chairman this has been a difficult task for all of us because we are at a time when we are faced with deficits, when we must cut back on Federal spending if we are going to have a continuation of economic expansion so that all Americans are participating in our economic expansion. More than ever before, I think we are going to have to focus our attention and resources on truly national needs.

In other words, we are at a time when we have got to reassess the Federal role in transportation policy and, in certain instances, leave local matters to State and local authorities. I strongly believe that Federal funds should be focused on those needs that truly do have a national scope or that cannot be met by State and local authorities. Our ultimate goal is to produce a transportation system more responsive to the people who use it.

The Department's fiscal year 1986 budget request contributes to the deficit reduction effort by concentrating Federal transportation resources on those areas of broad national interest.

For example, it provides continued support for important safety programs. I have insured that there will be no reduction in the total level of our safety programs.

It continues the fiscal year 1985 level of capital investment for the Nation's highway system and for highway safety.

It reduces the funding for programs that are not supported by user fees or which do not benefit the general taxpayer.

And it encourages the private section to expand its role in providing efficient transportation systems.

Overall, the Department's fiscal year 1986 budget proposes budget authority of $24.7 billion compared with $28.5 billion for fiscal year 1985.

This amounts to a reduction of $3.8 billion or 13 percent. More significant in the long term fight to reduce the deficit, that portion of the budget authority proposed to be financed by user fees will continue to increase, as I mentioned, from 70 percent of total DOT budget authority in fiscal year 1985, to a proposed 85 percent in fiscal year 1986. In fact, the budget authority not financed by user fees actually declines in absolute terms by almost $4.8 billion from fiscal year 1985 to fiscal year 1986. The Department has been doing its part to establish an appropriate basis for financing transportation programs by consistently increasing the proportion of budget authority financed by user fees and we feel that it really is only fair that those who benefit directly from Government services should share in their cost.

I would now like to give you a brief summary of our budget proposals for the programs under the subcommittee's jurisdiction. I am going to try and do this very quickly because I would like to go to the questions and use the time there rather than a lengthy statement.

The CHAIRMAN. Mr. Chairman, I hate to interrupt the Secretary, but I have two copies of your testimony here and they are different. I want to make sure that the members have the one that you are reading from.

I wonder, Mrs. Dole, if you could turn to page 5 of your testimony where it says, "Urban Mass Transportation Administration." In one area I have it stated down about five lines from the bottom, "Federal funding would no longer be available for transit operating costs." And, on the other one, I don't have that at all.

On one you start on Urban Mass Transportation Administration up near the top of the page and the other one is near the bottom of the page.

If you could just tell me which one you have, maybe we got a couple of them and I just want to make sure that we have what you intend to read.

Secretary DOLE. Well, let me check because I have neither of those.

We are zeroing out operating subsidies.

The CHAIRMAN. And, is that in your testimony. In other words, we have two pamphlets, you might say here, and I just want to make sure that the members up here have the same one that you will be reading from.

On the one that we should have, would you start "Urban Mass Transit," up near the top third of the page rather than below the middle of the page?

Secretary DOLE. Yes.

The CHAIRMAN. Up near the top?

Secretary DOLE. That's right. About five lines down.

The CHAIRMAN. I have the wrong one then.

Secretary DOLE. I don't know what that other copy is, Mr. Chairman, but the one that is five lines down begins "Urban Mass Transportation Administration," that is the copy you should have.

The CHAIRMAN. Well, the one dated March 7 is the one we should use rather than the one dated March 20th on the cover?

Secretary DOLE. Don Derman is going to come up to compare copies with you. I have just been told that an earlier version was distributed here this morning. I have no idea what caused that.

The CHAIRMAN. Apparently we're using the earlier one. Is the one dated March 7 the one we should use rather than the one dated March 20th on the cover?

Mr. DERMAN. That's correct.

The CHAIRMAN. Thank you. Thank you, Mr. Chairman.

Mr. ANDERSON. Thank you. Madam Secretary.

Secretary DOLE. Mr. Chairman, I'm just tempted since we've sort of gotten into an informal mode here, to just submit the rest of the statement to the record and to open it for questions. We seem to have ample copies to submit for the record.

I would be happy to just move right on to questions since you all have copies of the statement.

Mr. ANDERSON. We will use the March 7, 1985 statement, and it will be submitted for the record.

Secretary DOLE. Yes.

Mr. ANDERSON. Without objection, we'll make that a part of the record.

I have a few questions and then I will turn the discussion over to the other members.

Madam Secretary, was I wrong in my opening remarks by saying that this budget flies in the face of the Surface Transportation Assistance Act which the President signed only 20 months ago?

Secretary DOLE. Mr. Chairman, first of all, let me just talk for a moment about why you have this budget in front of you.

As I said, this has not been an easy exercise, but I think it has been a very very important one where all of the President's cabinet officers have looked across all of the programs. Together we have put together a budget which we feel does address the great need to reduce the deficit so that economic expansion can continue and we can include all Americans in the economic recovery so that every person who needs a job has a job. I think that is just such an overriding need at this point in time. We have gone about it from the standpoint of shared sacrifice that, indeed, all aspects of the Federal budget are going to be affected. As the Secretary of Transportation, I have got to make my contribution to this effort and we have tried to do it in a way where we are basically looking at general revenues, rather than user fees. Where issues are important from a national standpoint—such as national defense, facilitation of interstate commerce, or safety issues—we are continuing to fund those programs.

But where the programs basically have more of a local or State impact we need change. Very honestly, Mr. Chairman, we simply cannot continue to do all that we have been doing from the Federal level. Because economic recovery has succeeded to the point that it has, many of our States and localities now are running surplus. Economic recovery has been a benefit to them and we are going to have to change the involvement of the Federal Government and increase the involvement of the States and localities to address the needs of this present day.

But, this is something that we have done as a Cabinet. We have tried to look across all programs and basically in transportation, to redefine, to some extent, the Federal role in transportation policy. I do believe that if we go about this in a constructive way to try and find ways, for example, of streamlining service where service is underutilized, or of instituting rate differentials. In certain instances, right now a flat rate is charged for miles and miles of travel, with no differentiation for distance traveled.

There are a number of things that can be done. Bringing the private sector more into the picture. I get a little frustrated with the negative attitude sometimes.Some people think that everything is going to fall apart. There are no ways to adjust.

I just say, let's work through this together. I think that we can find ways to streamline service.As far as the Surface Transportation Assistance Act, of course, I was not here at the time that that was passed, but I am not sure how anyone could make a commitment for the second term of the Administration when circumstances have changed.

I think that circumstances are such today that we have a deficit which simply has to be addressed and it may mean that some changes do have to be made.

Mr. **Anderson**. Thank you, Madam Secretary. That wasn't exactly the answer I was hoping for.

My question was—does this budget fly in the face of the Surface Transportation Assistance Act which the President signed only 26 months ago?

I did not expect you to say, "yes, it does." Rather thinking you would say, "no" I then wanted to follow up with a couple of things to get back to this act that the President just recently signed.

The Surface Transportation Assistance Act would have provided $3 billion in fiscal year 1986, for the general funded formula program. That is the one that was just signed into law 26 months ago.

How much is in this budget? I think you know the answer. The answer is zero.

From $3 billion to zero is a pretty strong reversal, is it not?

My followup on that was: The Surface Transportation Assistance Act allowed $875 million for operating assistance.

I was going to ask you how much was allowed in this budget and again the answer is zero.

Isn't the elimination of a program that would have provided $875 million and cutting it to zero a pretty strong reversal?

And my third question was: How much does this budget allow for new rail starts and again the answer is zero.

Isn't that a reversal?

Now, putting aside any rationalization that the administration may have worked up for these changes, would you consider this mass transit budget just a mild revision or a major revision of the Surface Transportation Assistance Act?

Secretary **Dole**. Well, first of all, the $1.1 billion, the penny increase in the user fee which goes to provide user fee funds for mass transit is preserved. That would be the fund which would now be utilized for the formula grant program for mass transit, so that is preserved.

Now let me speak to operating subsidies and the new starts. I think it has been clear, since the administration came into office what the view has been on operating subsidies.

Twice now, both in 1981 and again last year, we did try to phase that down. Under the original proposal as you recall, it was to be zero last year. After talking with a number of constituent groups and Members of Congress, I did work, within the administration last year to propose another phase down over a 5-year period to provide even more time to adjust, although there had already been quite a bit of notice that this was the direction that the administration intended to go in.

Mr. Chairman, the Congress rejected the phase down twice. I think the notice has been there since 1981 that the administration does feel operating subsidies are best handled at the local level. I think that the reason for that is obvious in that if you're going to really have efficiencies in a system, then the bills have got to be paid where the decisions are made.

There is just not the incentive to streamline service when Uncle Sam, the "rich uncle" out there, is paying the bill. When uncle is paying the bill, then there just is not the incentive to cut back on uneconomic service on underutilized service. Transit authorities are just going to continue it because somebody else is paying the bill.

As far as rates on transit, basically, in many instances, the rate is held down, or there is a flat rate, whether you travel a short distance or a long distance. It's the higher income travelers on mass transit who are benefiting; those out in the suburbs or those who would utilize the extra service that is put on in peak hours. I really do believe we can do some streamlining, Mr. Chairman, to have some rate differentiation for these longer travel times, or to have perhaps a different system utilized for peak traffic, where you bring in the private sector. That's been done by a number of communities very successfully and there are studies done by the University of Southern California, Rice University, and others that show that you can cut your cost by 25 to 50 percent by utilizing private sector services.

Also a way to streamline is by targeting special groups who need help, who are transit dependent rather than just funding operating costs across the board. Localities could target certain groups with special kinds of services, demand services, like taxi service, for example, rather than trying to fund, in a general way, low volume, late night service or Sunday service which is often low volume.

You know, there are so many things that can be done if we think creatively. For instance, there could be more local and State involvement because in many instances they are running surplus today.

And frankly, I think, in terms of new transit starts, we have to think very hard. Are we really doing the people in the areas a favor? For example, Detroit right now is faced with major operating subsidies because the ridership is just not what it was intended to be.

In Miami, it's about a tenth of what it was projected to be. So, we have right now, with the projects that Congress earmarked last year a cost of about $4.5 billion to fund all those projects. There are a total of 50 of them being considered which would cost about $20 billion.

The new start area is really out of hand. These are issues that we just have to deal with and try to figure out how we can address them in a way that is responsible in light of the huge deficit we faced.

Mr. ANDERSON. You refer to the $1.1 billion from the penny being preserved. It is preserved, but the purpose for which you will use it has been absolutely perverted. You're using it for section 9 purposes and using that as an excuse for wiping out general funding. You are using creative accounting and saying that it is preserved. You're using it as an excuse to devastate transit and you're using it to eliminate the much larger section 9 program and you should, at least, own up to that, I would think.

Secretary **Dole**. Well, Mr. Chairman, I just see it differently. I see what we are doing here as redefining the Federal role in transportation policy. We're in a period that is very tough. Basically these are budget decisions. As I say, it has not been easy for me and now you all are wrestling with the problems here. We've got to bring the deficits down. The transportation segment of the budget has got to make a contribution as well as all other aspects. These are basically State impacted services. In other words, they have a local or regional impact rather than a national impact. Let me add that, in terms of formula funds that have been made available but unobligated, funds that have been obligated but unliquidated, there is quite a bit of funds that have not been utilized which would seem to indicate that the drastic results which some have said will occur will not occur. There are funds which can be utilized as a cushion during this transition period and the unobligated or the unliquidated obligations are in the multi billions. There was over $1 billion last year that were not obligated, comprised of section 9 and 9(a) and 18 funds.

In the area of rural transit services, there was about $55 million left over last year, $51 million of that can be used for operating subsidies. There was $175 million in Section 9 that applies to cities under 300,000 which can actually be utilized for rural or nonurban systems as well.

So, I mention that only to say that I think there is a cushion there. It also seems to indicate that things are not quite as drastic as sometimes they are portrayed.

Mr. **Anderson**. You, in your remarks, speak so glowingly of user fees. Do you think the American people support the imposition of user fees that aren't used?

Now, we have what most observers feel is an unnecessary large cash balance in the Highway Trust Fund and the mass transit account is actually pulling in far more revenues than are being used. Isn't it difficult to espouse user fees when they are not being used?

Secretary **Dole**. The user fees will, of course, ultimately be used for only the purpose for which they have been collected.

Mr. Chairman, in terms of a freeze on the highway area, let me just respond to that by saying that it is more than half of my budget and to leave that entire area out was just not feasible.

In other words, this is a freeze. The Interstate System will be completed on schedule, and the trust funds will be used for the purposes for which they are intended.

The excess in the mass transit account is $1.4 billion. The difference there, in terms of the interest that has been collected. It makes that higher than originally anticipated when the Surface Transportation Assistance Act was passed.

We're at a stage now where we are finalizing the new authorization legislation for mass transit and for highways. Indeed, we will be looking at whether or not the trust fund can support the higher level. If it appears that it can, then that is certainly something for us to consider in making our recommendations to the Congress for new authorizations.

I think that's the time to do it. Once again that money is certainly going to be used for mass transit. It's not going anywhere else and it will be used.

Mr. **Anderson**. Madam Secretary, budget briefing papers supplied by your staff contain projections of highway budget authority through 1990 of $15.21 billion per year which is roughly the level of budget authority provided by the Surface Transportation Assistance Act for fiscal year 1986.

However, they also reflect proposed obligational ceilings through 1990 which are $1 billion lower than the annual levels of proposed new contract authority.

Do these figures that I am quoting actually reflect the Department's intention and, if so, why are proposed obligations significantly lower than the proposed new contract authority?

Mr. **Derman**. Mr. Chairman, the projections that you have just cited are, in fact, correct in terms of the printed outyear projections in the budget for fiscal years 1987 through 1990.

As you also know, the obligation ceiling which is shown for fiscal years 1988, 1989, and 1990 of $14.2 billion, is approximately $1 billion over that that is requested for fiscal year 1987 and also that reflected in our 1986 budget proposal.

These outyear projections in the printed budget are those that are extrapolated from the budget decisions that are put before you now for fiscal year 1986.

As we go through the development of the individual budget estimates, for the years 1987 through 1990, we will, in fact, may very well reassess those printed numbers that are in the budget before you now in terms of the outyears.

Mr. **Anderson**. Well now then, will a simple extension of the Highway Trust Fund, as it is presently constituted, support the proposed levels of new contract authority through 1990 without triggering the Byrd amendment or must new taxes be inacted?

Secretary **Dole**. No, Mr. Chairman. It is our view that with the budget recommendations that we have made for fiscal years 1986 and 1987 that, indeed, we will reach the completion of the Interstate System on time. Our budget will take care of the needs in the highway area without any increase in the taxes.

Mr. **Anderson**. Would you provide an analysis of that for the record?

Secretary **Dole**. Yes, I would be happy to.

[The following was received for the record from Secretary Dole:]

Trust Fund Analysis

The Highway Account of the Highway Trust Fund is in good financial condition. The President's budget proposal assures that there is no danger of the Byrd amendment being invoked before 1990. Based on the revenue estimates made by the Department of the Treasury and used in the President's budget for fiscal year 1986, we can sustain the fiscal year 1986 authorization level of $15.4 billion for the Federal-aid Highway Program and highway related safety programs through fiscal year 1990 without tripping the Byrd amendment. This may be seen on the attached Table HA-29 which is based on a 4-year fiscal year 1987-90 extension of the $15.4 billion authorization level and the obligation estimates contained in the President's budget. However, the Byrd amendment would be tripped earlier if authorizations were increased annually with inflation and program expansion.

TABLE HA-29.—ESTIMATED TRUST FUND STATUS (HIGHWAY ACCOUNT): CURRENT LAW PROGRAM EXTENDED THROUGH FISCAL YEAR 1987-90 AND HIGHWAY TRUST FUND FISCAL YEAR 1992 BASED ON JANUARY REVENUE ESTATIMATES

[In millions of dollars]

Fiscal year	Authorizations	Obligations	Income	Expenditures	Trust fund balance	Unpaid authorizations
1983 and prior	154,183	148,643	140,347	131,286	9,062	22,897
1984	14,252	13,425	11,533	10,384	10,211	26,765
1985	15,112	14,500	13,178	13,042	10,347	28,835
1986	15,401	14,472	13,504	13,686	10,165	30,550
1987	15,401	14,417	13,653	14,007	9,811	31,944
1988	15,401	15,115	13,754	14,134	9,431	33,211
1989	15,401	15,157	13,891	14,598	8,724	34,014
1990	15,401	15,157	13,935	14,806	7,853	34,609
1991		9.666	13,973	14,137	7,689	20,472
1992			14,291	9,818	12,162	10,654
1993			804	3,791	9,175	6,863

Mr. ANDERSON. Now that the ICE is passed, when can we expect to receive the administration's proposed legislation to extend the highway program? Is it your intention to submit comprehensive legislation covering highways, highway safety and mass transit or do you intend to submit separate bills?

Secretary DOLE. Mr. Chairman, we're in the process of putting together the new authorization legislation and I would hope that by late spring you will have it. We are looking at a number of different issues. Obviously there is a lot to be considered as we put together the package for the next years and I would hope that by late spring that will reach the Congress.

As to what the make up would be, I think we would anticipate a comprehensive bill.

Mr. ANDERSON. I have one more question, and then I will yield and pick up some of my other questions later.

Madam Secretary, to clarify this trust fund concept, on October 7th, during a televised debate with Vice President Mondale, the President talked about the Social Security Program. He said, I quote:

> The Social Security has nothing to do with the deficit. Social Security is totally funded by the payroll tax levied on the employer and employee. If we reduce the out go of Social Security, that money would not go into the general fund to reduce the deficit, it would go into the Social Security Trust Fund, so Social Security has nothing to do with balancing a budget or erasing or lowering the deficit."

Then at a press conference on January the 9th, President Reagan said and again I quote:

> The Hill should recognize Social Security as running a surplus. Social Security is not part of the deficit problem. It is totally financed by a payroll tax and that tax is totally dedicated to that one program. If Social Security spending were reduced, you could not take the money saved and use it to fund some other program in the deficit. It would simply go back into the Social Security Trust Fund. So, I think it is far more profitable, the idea of balancing a budget to turn to the programs that really are causing the deficit.

Now, those are the exact words of President Reagan. He was speaking, on principle, about the operation of the trust fund program and explaining why the goal of a balanced budget is not addressed by cutting their expenditures.

Is there any fundamental difference, and this is my question, between what the President said, with respect to Social Security and the manner in which the Highway Trust Fund and its mass transit account operate?

Secretary Dole. Mr. Chairman, that's something. I would like an opportunity to focus on that a little bit. I think since the statement attributed to the President would be inconsistent with the concept of the unified budget, I would assume that he was speaking of the propriety of attacking the Social Security fund in particular rather than trust funds, in general. I would want to look at that a little more specifically.

Mr. Anderson. I was going to recognize, Mr. Shuster first, but when my chairman comes in, I must recognize him. Mr. Howard.

The Chairman. I just have a few questions.

Mr. Anderson. I'll try to explain it to Bud later why I did this.

The Chairman. Thank you and thank you, Mr. Shuster.

Mr. Derman, to follow up that. About how much is in the Highway Trust Fund at the present time?

Secretary Dole. I'm sorry.

The Chairman. I asked Mr. Derman about how much is in the Highway Trust Fund.

Mr. Derman. In terms of cash balances?

The Chairman. Yes.

Mr. Derman. About $10.1 billion in the Highway Account.

The Chairman. About $10.1. It usually runs $10-11-12 billion?

Mr. Derman. Correct.

The Chairman. Is that a general asset of the United States, in the Treasury, as corporate taxes on income taxes?

Mr. Derman. I would say so, yes.

The Chairman. May it be used for any purpose, as the other money may be used?

Mr. Derman. This is a dedicated trust fund so it can only be used for highways.

The Chairman. Right. So it is not a general asset as the other money is?

Mr. Derman. It is not a general fund.

The Chairman. That's right. Therefore, it should not be in the budget?

Mr. Derman. Yes.

The Chairman. Because you count that as money that you have on hand when you estimate the deficit, that money really should not be counted in there. Therefore, I would say that our deficit is at least $10.1 higher than what is being printed.

Mr. Derman. Until there is a change in the unified budget concept, it does, in fact, impact the deficit in terms of what the balances are.

The Chairman. But you don't have that extra $10 billion as a real figure in the budget, I mean, you shouldn't have it.

What I am getting at is that this ought to be off budget if we want it to be absolutely straight with it because you can't use it as you can use the other money.

Mr. Derman. That's the point I was making.

The Chairman. Right.

Mr. Derman. You have to reassess that.

The CHAIRMAN. How would OMB feel if we were to have, in our legislation, as we had for 1 year last year, a permanent exclusion of the trust funds?

Mr. DERMAN. I think you would have to ask OMB that.

The CHAIRMAN. Oh, I thought you were OMB.

Mr. DERMAN. No, I'm not OMB.

The CHAIRMAN. Oh, you're the budget man for Department of Transportation.

How would DOT feel if were to have the highway, the transit and the aviation trust funds off budget?

Mr. DERMAN. Well, that's an analysis that I wouldn't respond to just off the top of my head. I would like the chance to——

The CHAIRMAN. Off the top of Mrs. Dole's head.

Secretary DOLE. I think you had better give us a chance to look at that, Congressman Howard.

The CHAIRMAN. I would hope that you would. We had it done for 1 year and I understand, in a few years, Social Security is going to be off budget.

Mr. EDGAR. Would the gentleman yield, just on that point?

The CHAIRMAN. Just on that point.

Mr. EDGAR. Yes. Is there anyone behind you from the Office of Management and Budget that could answer that?

Secretary DOLE. We don't have OMB represented with us this morning.

Mr. EDGAR. Are there any members from Office of Management and Budget in the audience?

[No response.]

The CHAIRMAN. Well, I think it is something that we should consider because it has been talked about for quite some time. I think it is, in a way, unfair to the Congress, to the States and to DOT to have that listed in that way. I think it should be addressed and taken off-budget.

Mr. DERMAN. I would point out, Mr. Howard, however, that the 1986 budget proposals before the Congress are attempting to deal with the off-budget concept also. In terms of integrating them into the unified budget they, in fact, do impact the size of the deficit When they are off budget, it creates a problem for the overall goal of deficit reduction that the President's goals and objectives are geared for.

The CHAIRMAN. My point is that when you cut down on expenditures of money that is in the trust fund, you really don't cut the deficit. That money just has to sit there. It can't be used for any other purpose, to pay off any debts or reduce the deficit.

On the point that the chairman brought up about whether or not this legislation may fly in the face 1982 one. Mrs. Dole, you were not here at that time, but Ronald Reagan was. I believe anyone who had any knowledge or interest in transportation at that time knew that the Surface Transportation Assistance Act became law, signed by the President, at a great ceremony as to how many jobs it would produce and what it would do for transportation. On the increase in the gasoline tax, it was very clear that that was money to be used. In fact, in the legislation tax collection didn't take effect immediately because it couldn't go out immediately. It was not until the following April 1 that it would be collected.

Also the agreement was that all of it would be used. We would not, and it was said over and over by the former Secretary that we would not collect the money and not make it available. If we were going to take the money from the people for a specific purpose, it would be used for that purpose. It would all be used in addition to the existing programs. That is why the estimated $4.4 billion of it that went into the Highway Program raised that program from about $8.2 to $12.6 billion. The $1.1 billion, estimated to go into transit, would be used in addition to the $3.5 billion that came out of the general fund. I would have to say, by cutting any amount out of the Highway Program or cutting transit from about $4.6 billion down to $1.1 billion, is a complete reversal. It does fly in the face of what the President told the country and what the Congress told the country when we passed that in 1982.

We also have from CBO, that the transit fund is bringing in about $1.5 billion rather than $1.1 billion. Therefore, the total program that is being talked about by OMB and the administration now is less than just what the penny brings in and completely wipes out the rest of it.

I wanted to comment on this because we're talking about what the Government or what the people ought to be paying taxes for. The President has said publicly that people in Colorado, for instance, should not have to pay to help people in Washington, D.C. ride on the subways. I don't know whether you're aware of that statement that he made a couple of weeks ago and several other times. Why should the people in Colorado have to pay for that? Are you familiar with that statement that he made?

Secretary DOLE. No, I am not.

The CHAIRMAN. Well, he made a statement, I don't know whether it was on Amtrak or mass transit but he asked, why should people in Colorado pay for people in the East to do something.

Which then might bring up the question of why should the people in the Third District of New Jersey have to pay any part of their taxes to help out in the farm crisis in Indiana? Why should they have some of their taxes contribute to flood control along the entire Mississippi?

I wonder if you could tell me what the President and the administration's thinking is about the word, "United" in United States. Does it belong there or doesn't it?

I presume that the Federal Government would be involved in things that would be a part of the national interest or a great need some place in the country. If California has earthquakes and disasters, whatever can't be done by private industry profitably, ought to be, if it is a public need, a Federal responsibility. I wonder if you agree with that.

Secretary DOLE. Well, Congressman Howard, I think we have to crunch this discussion in light of the fact that we are going to have to address the deficit. It is a time when we have to make some hard decisions, some hard choices and perhaps, at a time when certain programs are being frozen and some are being eliminated, we simply cannot do all that we have done in the past. While we might desire to do certain things, in light of the fact that we have this deficit problem to address, we're just simply not able to do everything that we have done in the past or everything that we might desire to do.

The **Chairman**. I agree with you on that.

Secretary **Dole**. Having said that, then I think it does make sense to look at those issues, those programs that do have a national impact, where it is very clear that the taxpayers funds are going to benefit all taxpayers, whether it be safety issues or national defense or whether it be facilitation of interstate commerce. Perhaps in this period of time where we do have special problems that have to be addressed, we will not be able to do everything that we have done in the past in terms of the Federal Government providing the funds for those programs that have a very specific local or regional impact.

I think that that is a legitimate consideration in light of the problem that we are trying to address today.

The **Chairman**. You're saying that the individual people in this country then, ought only have to pay taxes for something that will directly benefit them.

Secretary **Dole**. No, I'm not laying down a rigid rule, Mr. Chairman——

The **Chairman**. That's what the question is and I was wondering if you agreed with it.

Secretary **Dole**. The thing is that we do have a difficult problem to address and we have got to address it. That means that we're going to have to give on some things where we might desire to have funds. The Federal Government, with its massive deficits, cannot continue doing all this when certainly, to some extent, thanks to economic recovery, the States and the localities do now have surplus in some areas. Perhaps it is time to do some rethinking about certain programs that do have primarily a local impact. Should not the locality and the State then contribute more when the Federal Government has the kind of problem that it has today.

The **Chairman**. Should people in rural Montana pay 5 cents a gallon extra or only 4 cents because that goes to highways. They don't have any mass transit out there so they shouldn't have to pay the other penny.

Secretary **Dole**. Well, you know, we could take examples.

The **Chairman**. Well, this is the example that the President took. He talked about transportation, generally, and I would like to know your position on that.

Secretary **Dole**. Whether people in one area should not be financing people in other areas?

The **Chairman**. Yes.

Secretary **Dole**. Well that goes to the fact that in certain areas, the States and the localities should be paying more. Is it that such an alien idea really to find some ways for the States and localities to contribute more?

Where the decisions are being made at the local level, is there not an argument? Will anyone concede that there is an argument here? That when you're making decisions with regard to service extensions, what the rates are going to be, what you're going to pay in wages that, perhaps, if you were paying the bills, you might have a tendency to be a little more careful. You know, I just don't think that's unreasonable.

The CHAIRMAN. We have rich States and we have poor States. The rich States ought to be paying a little more than they get back, as my State of New Jersey and other States do.

In the highway program, we certainly do it. We know we give more per mile for interstate in West Virginia where they have all the mountains or in the urban areas, than we give out on the plains where they just pave over things. If we were to say that you must take care of it yourself at the local level and they can't do it, then you don't have the National Highway System, which I think benefits everyone. I want my people in New Jersey to have adequate transportation available not just in their own State of New Jersey, but wherever they go in the country.

I think that when people travel all around the country there should be public transportation available that is adequate for all the people. That is people who live in that area and the people from Colorado who may visit that area.

Secretary DOLE. I'm convinced that, if we were to do a number of things for example, if rates were increased say, 5 percent, or instead of having flat rates, you were to have rate differentials to reflect the longer travel out to the suburbs.

If you bring in some private sector involvement to help with peak out traffic, for example. Now, this is being done in El Cajon, CA, it's being done in Norfolk, VA, where they have reduced the subsidy——

The CHAIRMAN. Singapore.

Secretary DOLE [continuing]. Per passenger, 64 percent in Norfolk by being creative, by being innovative, by bringing in private sector services.

In Westchester County, they have been able to cut their transit budget half of what Nassau County has. Nassau has much lower ridership. They have done it through use of the private sector facilities and private sector services.

You see that in a number of areas now. I am just saying that I never hear anybody say, yes, maybe we can do something. If we were to look at all of these ways of handling it, perhaps service would not be decreased by very much. If we could think creatively and work together with States and localities and the private sector to come up with some ways of handling what the Federal Government is finding it very difficult to continue to finance.

The CHAIRMAN. I have two just brief things.

One, do you object to the Federal Government giving permission for subsidized, federally subsidized transit systems competing with and undercutting private companies.

Secretary DOLE. I'm sorry, do I object?

The CHAIRMAN. Such as where you have a subsidized service which applies for a charter, in competition with nonsubsidized private enterprize.

Secretary DOLE. It's another aspect of this that, in some instances, there has been created a local monopoly in private sector services. I mean that has happened in areas, as you know.

The CHAIRMAN. Well, some of us object to public funds being used to subsidize, to undercut and put out private businesses. We think the Federal money ought to be used only where private enterprise can't do it. That's one question.

Do you think that a $1.1 billion Federal total transit program would virtually destroy or, at least not provide adequate public transit in this country or do you think that we can have good public transit with a $1.1 billion total?

Secretary **Dole**. I think that we can have a good transit, for the reasons that I was just mentioning. I think that a combination of utilizing private sector in appropriate instances, changing the rates, cutting out underutilized and uneconomical service. There are a number of things that can be done.

The **Chairman**. We needed $4.6 billion though in 1982.

Secretary **Dole**. We need to increase productivity, tie the decision making and the funding together so that we have a streamlining of the systems.

I do think that there are ways to proceed. As I have already articulated earlier, there are funds which have not been expended. I do not expect that systems would just be shut down. We can work together to come up with creative, innovative ideas and maybe it would actually produce a much more effective transportation system when we begin to bring in the private sector, when we streamline, when we provide efficiencies that simply aren't there now in most cases.

The **Chairman**. The President thought that we needed $4.6 billion a year in 1982 when he signed the law. Now he feels that we only need $1.1 billion. That 2½ years at $4.6 billion really did a tremendous job, I guess.

Secretary **Dole**. Well, let me ask you, on the new start aspect of this. The way this has been going in the past few years there are now 50 different systems that have been talked about and would cost the Government $20 billion. Where earmarking occurred last year, without any regard to the criteria which we had set up to try and bring some order out of this, it would cost us $4.5 billion. This is just to go with those earmarked projects which are very uneven in quality.

You know, to me this is not good transportation policy.

The **Chairman**. But the policy you have now is that anybody who doesn't have a system doesn't need one.

Mr. **Anderson**. Would the chairman yield?

The **Chairman**. Yes. I'm finished. I didn't mean to take that long. I would yield to my colleague.

Mr. **Anderson**. Just briefly, I have a problem with your holding Mrs. Dole responsible for what the President said, to some extent. However, I also have a problem with what she said, charging us with what the Appropriations Committee did.

Secretary **Dole**. I understand.

Mr. **Anderson**. I just wanted to express both of those problems publicly.

The **Chairman**. Everybody gets blamed. DOT gets blamed for everything and all the Republicans talk about the Stockman Budget. Nobody mentions the Reagan Budget, so I guess it's just the way it gets written.

Mr. **Derman**. And I get blamed for working for OMB.

The **Chairman**. Thank you, Mr. Chairman. Thank you, Mrs. Dole.

Mr. **Anderson**. Mr. Shuster.

Mr. Shuster. Thank you, Mr. Chairman.

First, I am not going to belabor the line of questioning that deals with the trust fund because that has already been quite amply covered by my colleague. I would simply leave it by emphasizing that there is strong bi-partisan concern, Madam Secretary, for the sanctity of the trust fund.

I am sure that this committee, on a bi-partisan basis, believes strongly that we should spend it or we should reduce the tax and that, in fact, it should be treated separately and not be used to artificially reduce the general fund deficit.

Having said that, I will move on to other areas because I think that has been adequately covered.

With regard to public transit subsidy, I was quite taken, as I got into the issue of operating subsidies, with the differences between small public transit systems and large transit systems and the fact that the small systems are not nearly so capital intensive, they don't have the massive capital requirements that the large urban areas have. But, that they are much more dependent on operating subsidies rather than being dependent 8 or 10 percent as many of the large urban areas are of their budget for operating subsidies. Some of the small areas are 30 or 40 percent dependent in their budget.

And, also it should be noted that those small areas do not generally have the high labor costs, which you so rightly expressed concern over, that the urban areas have.

Having said all that, my question is: Should there not be some recognition and differentiation between the way we handle operating subsidies for large urban areas and small urban areas or rural areas?

Secretary Dole. Well, as you say, a larger portion of the costs are subsidized for the small cities. No question about that.

The main reason for this is because the smaller cities generally have a lower density population. With fewer riders the fares would cover less of the operating costs.

I think, with a small city, they are more amenable to private sector services being provided. I think that is a real possible source of assistance here because studies do show that the costs can be cut by 25 to 50 percent by utilizing private sector services.

Mr. Shuster. In rural areas?

Secretary Dole. Right. In fact, with the rural areas, basically, I think you could compare them with the small cities in terms of how it would be handled.

In other words, again it's going to be a combination of things—trying to look at service at rates and so on—but overall, I think that private sector services can be utilized. Communities like El Cajon in California have saved 5 percent of their total transit costs using private contractors to provide some of the regular services. Same thing in Norfolk and I think the same thing can be done in rural communities.

There is, again, that cushion that I mentioned. There is about $55 million that was not utilized last year. This is section 18 money. There was $175 million left in section 9 which can be converted for use for rural communities.

But the idea of having the option to use the funds either for capital or for operating subsidies. If, indeed, there were real progress, real progress toward meeting the President's budget, that would be an idea that I would be willing to consider.

If we made some real progress in meeting the goals of this budget, we would consider providing that kind of flexibility.

Mr. **Shuster**. I appreciate that comment. I think it is a very constructive one and one that we ought to focus on in the weeks ahead.

Turning now to the Washington Metrorail System. I wondered if you would explain why the budget axe has not fallen on Washington Metro as it has on virtually the rest of the mass transit budget.

Secretary **Dole**. The Stark-Harris authorization did set up a separate system for the Washington Metro. In light of the fact that this is the Nation's capital and it is important to people in all parts of the country, we have determined that we would continue to fund Metro, through this authorization.

We have indicated that we could not go beyond that. It's a special situation which the Congress agreed to some time ago, Congressman Shuster, and we have continued to fund under that special authorization.

Mr. **Shuster**. I think that certainly is an area that we should look at more closely as we wrestle with this budget question.

Turning to the issue of Conrail, because it is an issue that this Committee is very much concerned about because of the impact of freight rail service on the other modes, modes that this committee has direct jurisdiction over, and also recognizing that one of the proposals, I believe, made by the distinguished chairman of the Rail Subcommittee, is that the proceeds from the sale of Conrail, roughly $1.2 billion, would go into a trust fund to fund the infrastructure and, indeed, the infrastructure, by and large comes under the jurisdiction of this committee.

So, all of these many different ramifications of the sale of Conrail are of keen interest to this particular committee, most especially to those of us on this committee who come from the Northeast and Midwest which would be most affected.

Specifically, there has been enormous concern expressed in Pennsylvania and some of the other States, about the Norfolk and Southern proposed sale and that if, indeed, Norfolk and Southern were to buy Conrail, there would be an adverse impact on both service, costs and employment in states such as Pennsylvania and others and I wondered if you would care to comment on that.

Secretary **Dole**. Yes. I think it has been made clear by Norfolk Southern. They certainly would be glad to sit down with anyone who is concerned and would like to talk through these issues. First of all, that as far as the impact on employees, the bottom line on it is about 1,200 would be impacted. Now, you know when Conrail was set up in 1976, there were a 100,000 employees. They're down to 38,000 now. That is what has occurred over those years. This merger would impact, after the divestitures to the other smaller railroads, about $1,200 to $1,500, I believe. Those impacted would be only by attrition.

So, I think that that is very clear. What was the other part of your question?

Mr. SHUSTER. The impact on service and costs, as well as employment.

Secretary DOLE. Let me just take the State of Pennsylvania, for a moment, in terms of the impact.

The key consideration that I have had in making my determination has been to preserve the financial strength of the railroad and the service patterns. That is the reason why all these elaborate covenants were negotiated with the final bidders.

We spent months and months negotiating covenants which, indeed will insure that this is going to be a strong railroad, that it is going to continue to provide the service, and that every year, $500 million would be put into capital. Maintenance would not be deferred. No more expedited abandonments and so on would be permitted.

So, indeed, it will be a strong system for the shippers in Pennsylvania.

Now, looking at the State and the impact. First of all, both the P&LE and the Guilford are a part of the agreement in principle which has been reached with Norfolk Southern to purchase rail aspects of the system and to engage in trackage rights and reciprocol switching agreements. So that is going to have a very positive effect with the Guilford in the east part of Pennsylvania and the P&LE in the west.

Also, with this combination of Norfolk Southern and Conrail, goods that are carried up from the south, chemicals, paper products and agricultural food products will be carried long haul on a single line. There will not be the interchanges which exist now so that you can expect those goods to arrive in Pennsylvania with a lower cost and a more timely arrival.

For example, there is an interchange here in the Potomac Yards that often slows down the time before the goods are delivered. Often trucks pick it up for the rest of the trip. A single haul will provide for a lowering of rates and a shorter time. So I think there are a lot of advantages and, of course, the legislation itself does guarantee that headquarters remain in Philadelphia, that the Altoona shops will remain as they are. I think it's a good deal for the State of Pennsylvania and its shippers.

Mr. SHUSTER. You mentioned the requirement in one of the covenants, I believe, that $500 million in cash be retained in the corporation.

Secretary DOLE. Right.

Mr. SHUSTER. Which raises the whole question of cash flow. Under the Norfolk Southern deal or, for that matter, if Conrail were not to be sold, would it be retained by the Government? What, roughly, would be the cash that would be available to pay out in dividends annually for the next 5 years or so?

Secretary DOLE. Well, first of all there are dividend restrictions. In other words, $500 million has to remain in the company after dividends are issued, so you can't consider issuing dividends unless that is going to be the case. No more than 40 percent of net earnings can be paid out in dividends. But, basically this is the best of the next 5 years for Conrail. By their projections, this is the best of the next 5. They do expect traffic to drop, profits to drop in 1986 and on into 1987.

Mr. SHUSTER. Have we looked at the question, if we do not sell Conrail, of how much in cash dividends, the Federal Government, as the owner or 85 per cent owner, will receive from Conrail over the next 5 years? It seems to me that's one way to measure return on investment.

Secretary DOLE. Well, I will have to provide that to you.

Mr. SHUSTER. I would appreciate it. I sent a letter a couple of weeks ago asking the question, I think, to FRA and I would appreciate an estimate on that because it seems to me it's a very fundamental and also, I might say, I asked it of Mr. Crane some months ago and I still don't have an answer from there either.

It seems to me that a very fundamental investment question is: what is the return on the investment that an owner and we happen to be the owner, as of today, can expect over the next 5 years, from Conrail because that would then tell us. It would give us a comparative measurement as to what the return would be alternatively if we sell it and we get $1.2 million and what the value of investment is on that $1.2 billion.

Secretary DOLE. Well, of course Conrail, you know, has had 4 years of profitability now. Actually, the first 2 years, if they had been paying their State taxes, if they had not had the wage concessions——

Mr. SHUSTER. I understand.

Secretary DOLE [continuing]. The Federal Government weren't paying the $77 million we paid last year in labor protection, they would not have had profits the first 2 years and last year's $500 million would have been cut considerably.

Mr. SHUSTER. I understand.

Secretary DOLE. It is a very slim profitability history at this point. It is the best of the 5 years in their present projections.

Mr. SHUSTER. I still think it is important to know what the return on investment would be to the Federal Government, if we retain ownership or sell to somebody else. I would appreciate it if your department could dig out that letter I sent down a few weeks ago and respond to it.

Because, it seems to me it gives us a relative measuring stick as we evaluate the alternatives for the sale of Conrail.

Do you think you might be able to do that?

Secretary DOLE. I will be happy to find the letter and get an answer to you.

Mr. SHUSTER. Very fine. Thank you very much.

[The following was received for the record from Secretary Dole:]

CONRAIL—RETURN ON INVESTMENT

On page 41 of a report entitled Outlook for Conrail dated April 1, 1985, the United States Railway Association projects net income for Conrail if it remains under Government ownership, but pays state taxes, wages at national levels, and its own labor protection. According to our calculations, based on USRA's net income projections and the terms of Conrail's Restated Articles of Incorporation (which specify the conditions under which payments can be made), Conrail would make the following cash interest or dividend payments, or both, to the Government over this period:

1985, $0; 1986, $0; 1987, $0; 1988, $0; 1989, $229.5; total, $229.5.

(The payments would be made on April 30 each year based on the prior year's earnings.)

The net present value of the interest and dividend payments would be $135 million using an 11.2 percent discount rate (the Federal borrowing rate as of April 11, 1985 on 5-year securities maturing in 1989). Making your suggested comparison, then, keeping Conrail would clearly be worth much less to the Government than selling it now for $1.2 billion, without even considering the value of tax benefits given up or of the covenants.

If the Government invested $1.2 billion to obtain these cash flows, which we would effectively be doing if we kept Conrail instead of selling it to Norfolk Southern, we would forgo a great deal of money.

Mr. KOLTER. Would the gentleman yield?

Mr. SHUSTER. I would be happy to.

Mr. KOLTER. Mrs. Dole, I am the other member of this panel that has concerns about Conrail because of the Conrail yards in my district of Pennsylvania.

I have talked with a number of shippers, people who have to ship their goods from western Pennsylvania and they state to me that they have great fears that if, in fact, Norfolk and Southern would take over, because of lack of competition, the prices would be terrible, terribly high. Would you make a comment on that?

Secretary DOLE. Yes, I certainly will.

Six months of very detailed review went into the competitive situation here. In other words, the Justice Department spent 6 months with an independent expert team of transportation specialists looking at all aspects of this merger. They went point-by-point. It was an extremely detailed review and I think that what has occurred here is probably a more stringent review than had the ICC been reviewing this.

They went point-by-point, market-by-market. They looked at, not only all goods traveling into the Norfolk-Southern Conrail service area, but also points outside.

In other words, they used commodity location pairs and the points from which those goods traveled and the points to which the good traveled and the corridor in-between. Their goals were these. First, that competition should not be lessened and second, that effective competitors should not be lessened by this merger. They would not approve it if, indeed, either of those was the case.

What they came out with were some requirements that Norfolk Southern has to fulfill or they will not get clearance from the Justice Department.

That means that some lines have got to be divested to smaller railroads so that where there are three railroads now, there will be threeafter the sale. Where there are two now, there will be two after the sale and not just railroads, but effective competitors have to be preserved.

Also, the Justice Department looked in terms of any diminishing of competition, for example, by combining operating and marketing operations, that could lead to some leveraging on pricing. That also, of course, is a part of their concern that this not be the case.

They retained jurisdiction until the requirements are fulfilled and, indeed, there is an agreement, in principle, now with both the Pittsburgh and Lake Erie and the Guilford.

Minigateways will have to be opened. This is going to mean a procompetitive picture in parts of the country, including, I feel, in Pennsylvania—not just neutral—but procompetitive.

Mr. KOLTER. Mrs. Dole, would you not agree that in Pennsylvania, Pittsburgh and Erie, in the Northeast here, that, in fact, there would be no competition for Norfolk and Southern?

Secretary DOLE. No.

Mr. KOLTER. No.

Secretary DOLE. No. I mean, in other words, where there are three railroads, there will be three. The Pittsburgh and Lake Erie is picking up parts, as well as the Guilford System. Guilford is now going to be able to go out of the gateway at Buffalo and have a system right across. It's going to be a much stronger system because of the additional trackage they are going to be able topurchase from Norfolk Southern. It will be a very viable system.

Mr. KOLTER. Mrs. Dole, would you be permitted to me a copy of this report so I may study it and be able to report back to the shippers in our district?

Secretary DOLE. Right. And by the way, there are many shippers who are supporting this deal too and I think the key thing here is where you have a specific concern like the one you mentioned, please ask Norfolk Southern to come in and talk with you about it because they want to be responsive.

Mr. KOLTER. I have a meeting at 11:30. Thank you Madam Secretary, for your time. I yield back the balance of my time.

Mr. EDGAR. Mr. Chairman, I ask unanimous consent that all members have 5 legislative days to submit statements and questions for the record and that the Department of Transportation respond to these questions in a prompt fashion.

Mr. ANDERSON. There is no objection, so ordered.

Mr. EDGAR. Mr. Chairman, I have a number of questions and I will come back to a second round, but let me do some questioning in two areas and first, before we leave the Conrail issue, Madam Secretary, there are several legislative processes that you can use to get the sale of Conrail to Norfolk Southern through the House of Representatives and the Senate and on to the President's desk. As you know, your legislative initiative, coming up to the hill, was a request. Congress really has the right and the responsibility to act on whether or not this sale should proceed.

Can you pledge to this Committee, on the record today, that you will work through the regular legislative procedures, rather than try to attach the legislation that you sent up to a budget reconciliation act or to any other vehicle that will not give the Energy and Commerce Committee on the House side or the appropriate committees on the Senate side the deliberate opportunity that they need to review your decision?

Secretary DOLE. Congressman Edgar, I was told by the chairman of the full committee that we would have a fair hearing. Indeed, if that is the case, I intend to go exactly with the process that you have just described.

Mr. EDGAR. So your intention is not to use the budget process?

Secretary DOLE. My intention now is not to do that and, as I say, I have been assured that we will be given a fair hearing. Based upon that assurance, I would intend to go forward with the process you described.

Mr. EDGAR. In that process, deciding on the Conrail sale, you have sent up about a short piece of legislation and you have included the contractural comments in a document that is separate from legislation.

Can you detail for the committee why you did not put the legal language that you have in that second document in the actual legislation that you sent forward.

For example, the guarantee on the corporate headquarters in Philadelphia, the guarantee that you make in those extenuating documents are not part of the legislation you sent forward.

Secretary DOLE. Well, I will have to check that because, as I indicated earlier, it is our intention that that language be included in the legislation.

Mr. EDGAR. Except that the language that your Department sent up was centered about a key paragraph which, in a sense, gives a check to you, a blank check, to sell Conrail based on your recommendation.

Secretary DOLE. This is addressing the Chadha problem. The Chadha case overturned the legislative veto when the Supreme Court ruled it unconstitutional. I felt that now we should ask the Congress, specifically, to give me the authority to proceed. That is just the simple matter of addressing the fact that the legislative veto is no longer.

Mr. EDGAR. I have no argument about that, but in the existing law that set up Conrail, there is language in the law that states that the corporate headquarters will remain in Philadelphia.

In the legislative recommendation that you have sent up, it turns on only about a paragraph or so of language.

Secretary DOLE. I think there is some confusion and let us work with you on this afterward, because the legislation itself is about a 15-20 page package. There is some confusion here that we need to address.

The bottom line is, the intent is that the Headquarters issue be addressed in legislation.

Mr. EDGAR. Well, I had a debate with John Riley last Thursday and John and I reviewed the whole question of the sale and John confirmed that, in fact, the document that you're referring to, that is 26 or 27 pages long, is a separate document, not a legislative document, but it, in fact, is the contractural relationship that you developed with Norfolk Southern and is not part of the actual legislation.

In fact when I addressed that to him, we talked about the fact that if you were serious about Norfolk Southern and about assuring the Congress of the United States of the guarantees that you're locking in on the Conrail sale, that you would have included that in the legislative language and not in a separate document.

Secretary DOLE. Let us look at that because, of course, one document is the Memorandum of Intent because we have been negotiating a deal with a specific buyer. I think this is semantics, basically, but I will be glad to address that because it is certainly my intention that it be part of the legislation. I think that is exactly what the basis of our discussions has been.

[The following was received for the record from Secretary Dole:]

CONRAIL REQUIREMENTS

The provision at issue from the Department's legislative proposal for the sale of Conrail reads in relevant part as follows:

"(3) The Secretary is hereby authorized and directed to implement the Secretary's Plan in accordance with paragraph (4) of this subsection. . . .

"(4) The Secretary shall implement the Secretary's Plan by negotiating, executing, delivering, and performing the Definitive Agreements, which shall, in the Secretary's judgment, conform substantially to the Memorandum of Intent described in section 102(20)(A)."

This provision is no more and no less than a Congressional directive that the Department implement the "Secretary's Plan". It is proposed as a replacement for the current paragraph 401(a)(3) of the Regional Rail Reorganization Act (3R Act), which set forth a "legislative veto" mechanism over Conrail sale proposals that was invalidated by the *Chadha* Supreme Court decision.

"Secretary's Plan" is defined in the proposal (and at section 102(20)(A) of the 3R Act) as containing (1) the Memorandum of Intent (MOI) between DOT and the Norfolk Southern (NS) for the sale of the government's common stock interest in Conrail, and (2) divestures in accordance with an attachment to the MOI that sets forth the Department of Justice conditions needed to preserve competitive service to shippers in the Conrail service region. Thus, enactment by Congress of this provision constitutes acceptance of the sale plan and incorporates by reference all requirements of both the MOI, along with its attachments, and the "Definitive Agreements" referred to in the proposed paragraph (4) that can only be made final after enactment of the legislation.

There are several reasons why the MOI should not be considered for enactment by Congress. First, the document is actually the summation of a complex business transaction contemplated by the signatories and is not set out in mandatory terms appropriate for legislative enactment. The Norfolk Southern Corporation only bargained with the Department to be bound as an equal party to the MOI, and it would be totally inappropriate to convert this agreement into a federal statute binding NS. Second, the document contemplates future agreement on detailed "Definitive Agreements" that will not be achievable until legislation is already in place. Finally, one major purpose of our proposed legislation is to free post-sale Conrail as much as possible from federal law that does not apply to other Class I railroads, and enactment of the MOI would be a serious step backward in this respect.

Moreover, enactment of the Administration's bill as proposed would ensure fulfillment of the protective covenants contained in the MOI, including the requirement that Conrail headquarters remain in Philadelphia for a minimum of 5 years. As noted, the provision set out above directs the Secretary to implement only a "Plan" that incorporates the covenants of the MOI by reference. Additionally, section 121 of the proposal specifically extends the jurisdiction of the Special Court constituted by the 3R Act to suits "brought by the United States or any agency or instrumentality thereof seeking to enforce the Secretary's Plan or the Definitive Agreements and, for purposes of any such action, a violation of any covenant contained in the Secretary's Plan or the Definitive Agreements shall be deemed to constitute irreparable harm for purposes of awarding injunctive relief to the United States."

Under this language, the United States can easily and would obtain judicial enforcement of the "Philadelphia headquarters" or any other covenant contained in the MOI.

Mr. EDGAR. And I will just state for the record, that it is my intention, over the next few weeks, to pursue very actively, in a very clear way, the public offering which some of us have looked at as an alternative and hopefully careful discussion of that alternative can also take place.

Let me shift back to the discussion of the hearing today and the issue that I want to talk about is this issue of your recommendations on public transportation as included in the President's budget.

In the 1982 Surface Transportation Act, which many of us worked on, we made a real commitment, in the highway area, to rehabilitation and reconstruction of the existing interstate highway system. Drew Lewis came before us and often stated and I want to find out whether you have the same opinion, that the massive capital investment that we put in place since about 1959 or so, which is the Interstate Highway System and network of highways and bridges, all of that capital has to be maintained and that the Federal Government does have some role in major reconstruction and rennovation of that capital investment. Is that your understanding?

Secretary DOLE. Well, yes. We're at a point now where very soon we're going to be sending to the Congress reauthorization legislation. We are looking at all aspects of the future. In other words, as we move on, as we basically complete the Interstate system, I think that we may want to consider some restructuring. Certainly my view is that there is a very definite Federal role involved here for the future and I do not anticipate that that role would be set aside.

Mr. EDGAR. Well, I agree with you. I agree with you and that is why I have such a difficult time with the decision to eliminate 100 per cent of the operating assistance on the public transit side because most of that operating assistance is not going to pay salaries. It's not going to pay for service route extension. It's going to maintain the capital investment that we put in place in trollies, trolley buses, buses, stations, signals. If, on the one hand in the highway area, there is a Federal responsibility, in a small per cent, not in a 100 per cent, but in a small per cent, to maintain that existing capital on the highway side, I wonder why you would make the recommendation to eliminate all of the funding that the Federal Government would include to maintain an existing capitalon the transit side.

Let me just finish my point.

Secretary DOLE. It doesn't terminate all the maintenance, but go ahead.

Mr. EDGAR. Well, it doesn't terminate all of the major maintenance on the capital side, but it does drastically reduce the maintenance of a bus or a trolley and the portion of those operating assistance that is directed to the maintenance of those capital investments.The fear that I have is that we move in a transportation system where it will be cheaper for public transit authorities to buy a new bus than to maintain the existing bus or to buy a new trolley than to maintain the existing trolley and in long discussions and debates with Drew Lewis, when he first came into the position of Secretary of Transportation, he was also adamant about a 100 percent of these operating funds to be eliminated.

But, I think if you go back and talk with Drew now, and I have had several conversations with him, he believes that there is a role for the Federal Government in maintaining that capital and keeping a balance between the ability of a local operator to buy a new system.

Let's just use an example. In Philadelphia, the State comes up with 16 percent of the money for a new bus. SEPTA comes up with 4 or 5 percent for a new bus and the Federal Government comes up with 80 percent for a new bus.

And, if you take away all incentives to maintain that bus, when it starts to have problems, rather than renovate it, using part of their operating assistance to do so, transit authorities will use capital funds to replace that bus and it will cost the Federal Government more.

How do you view that?

Secretary DOLE. Our budget, last year, which we submitted, would have done just that for the small cities, but the Congress rejected our proposal last year. The budget doesn't terminate all maintenance assistance because the UMTA Formula Program currently allows funding for associated capital maintenance items. These would be mainly major spare parts.

That is permitted to be funded out of Federal capital expenses, and this proposal would be retained so that aspect of it would be covered. I think that certainly helps insure that these transit systems don't suffer from the lack of major spare parts.

Now, as far as other maintenance costs, with the Federal Government paying the lion's share of the acquisition costs, I think it is not unreasonable to expect that maintenance would be provided by the locality.

Now the Federal Government, just as a comparison, doesn't routinely pay for up-keep on police cars, fire trucks, or other things of this nature.

Mr. EDGAR. The Federal Government does have a small part to play in the maintenance of existing highway systems because of the capital investment. In the case of public transportation, if the local operator is footing 85 percent of the operation and maintenance together, it doesn't seem unreasonable to some of us that 15 percent of that maintenance might be the Federal Government's share to make sure that those local operators, in fact, continue to maintain that system. I have argued for years relating to these two major areas, major capital maintenance and operations, that we have a clear idea of where they are spending that money.

Now about specifically Pennsylvania and the city of Philadelphia and what your proposal will, in fact, do.

The Southeastern Pennsylvania Transportation Authority, in fiscal year 1985 in section 9, received about $97,000,000. Under your proposed budget, in section 9, the SEPTA will receive about $33,000,000 for a cut of $64 million.

In the discretionary side, the city receives $75,000,000 and you would eliminate all of that in your proposal.

The total would be close to 140 some odd millions of dollars that SEPTA would have to eat, starting October 1 of this year, if the administration's proposal if approved.

Do you think that is realistic in terms of providing a quality transportation system and do you think that cities like Philadelphia can assume that type of additional funding within the next 6 months?

Secretary DOLE. Well, I think, in terms of a city-by-city or State-by-State breakdown, when you have the administrator here, perhaps he can respond more to your specific geographic questions.

But, in terms of a general answer cnce again let me just say that I do think that a combination of various things can really cover what the Federal Government is not able to contribute. In the future that does mean more of a local and State involvement. It does mean looking at private sector possibilities. It means looking at service that perhaps is being under utilized. It means making some determinations about increasing the rate in certain areas for service that is mainly directed toward higher income travelers.

Mr. EDGAR. Are you assuming that a local operator over the last 5 years, hasn't done that already, that there hasn't been a large percentage of increase in terms of cost and a large reduction of service?

Secretary DOLE. I think there are a number of surveys that show that, indeed, a great deal could be done that has not been done. That, indeed, in some areas, rates have been held down and wages have been high above the cost of living. The survey showed that a high percent of the funding has gone to make up for lack of productivity. Yes, I think there is much more that can be done in this area. That's not to say there haven't been efforts, but I think that there is certainly more that can be done. The fact is that the Federal Government has been paying the operating subsidies it has not provided the kind of incentive to really look hard at these options.

Mr. EDGAR. Let me say two things. If you were testifying in 1979 or 1980, there may have been some justification for the comments that you just made, but I frankly think that you have not clearly looked at both small and large public transit systems over the last 5 years, and I think that if you take a careful look at the large systems in New York and Philadelphia, Chicago, or the small systems in some of our smaller cities, you're going to find that because of some of the changes that were made, some of the targeting of some of the dollars, some of the commitments that were made to try and address some of the questions you're raising that, in fact, fares have increased, labor contracts have been made that have been adequately addressing the issues that you raise and that many of these systems are, in fact, still struggling.

Let me give you a case in point and I know you don't want to talk about a specific system, but let me talk about Philadelphia.

Because of the actions of Drew Lewis and the follow on action of spinning off the commuter rail system, Philadelphia had to assume a large major responsibility of commuter rail without any additional funding.

We have had several major accidents. We have had a lot of problems in that system, three major problems. We don't have capital to maintain that heavy rail system. We don't have the morale within our labor force because of Conrail and AMTRAK taking off the most experienced employees and we've got some real safety problems.

And, if you take an infrastructure of public transportation which is probably the best infrastructure in the Nation, like Philadelphia, and you add to that infrastructure a major old commuter rail system, not because the city wanted it, but because Conrail spun off that commuter rail. If you then automatically assume that if you drop operating assistance and drop discretionary of some formula money for capital improvements, that the State and the city and the localities in the region can handle that pick up, what I think you're going to find is that within the next couple of years there will be major deteriorationof that infrastructure and there will be major shutdowns of those transit systems and there will be major points at which good quality transportation, which could be provided, simply would not be able to be provided.

I would have a lot more respect for the administration's proposal if they came in and say next year we would like to reduce by 5 percent the operating assistance.

Secretary Dole. We tried that, Mr. Congressman, twice, 1981 and 1984 and the Congress rejected it both times. That's been tried.

Mr. Edgar. You think Congress is going to be any more pleased to have on October 1st, those massive reductions in our urban and rural transit systems, just because you have been frustrated,have failed in the past.

Secretary Dole. But to say, let's try it. I'm just saying we have tried it and that is the signal that has been out there since 1981.

Mr. Edgar. I'm suggesting I would have more respect for your decision if you came up with a real sense of what is happening out there.

I have been traveling the country and in every major newspaper, in large cities and many of the smaller cities, everyone of the transit systems, which you have some responsibility over, are hurting. There are service cut backs.

Secretary Dole. If we don't address the major national problem that we have, everyone is going to be hurting even more. So, you know, we're back to the problem. As I have said, these are tough decisions. In an ideal world there would be things that we would like to do that we cannot do when we are facing difficult issues. We have to address the deficit. These are mainly local programs and there just has to be some hard look now. Certainly there are systems that have tried to address these problems, but I think overall there's a lot more that needs to be done and perhaps it hasn't been taken as seriously because every year the Federal Government continues to pay the bills. OK, let's get together, reason together, work through this, look at various opportunities and look at private sector involvement.

Mr. Edgar. I have to disagree with you. I think that the public transit properties have seen the writing on the wall. They have asked those tough questions. They're making tough decisions everyday. They've got tough decisions to make with labor. Tough decisions to make in terms of capital investments and if you just take one system that I know a lot about in Philadelphia, just to repair the bridges on the commuter rail system, which are enormous, are going to take major capital investment and all of that is not coming from the local communities.

Let me close with this question.

In 1979, the Appropriations Committee asked the Department of Transportation for a report on the needs of rail modernization cities. It was due at the end of that year, 1979 and, although we extended the deadline, the Appropriations Committee and our committee still have not received that rail modernization report. What is the status of the rail modernization report and can you summarize its conclusions on the need of those cities that have rail modernization needs?

Secretary Dole. The consultant contract that came in was not adequate and a Board of Review has been necessary.

Mr. Edgar. This is 1985. The report was requested in 1979.

Secretary Dole. Administrator Ralph Stanley, when he comes up to make his presentation, will address that specifically.

Mr. EDGAR. Thank you, Madam Secretary. Thank you, Mr. Chairman.

Mr. ANDERSON. I would like to ask my colleagues to try to keep their questions as short as possible, and to issues that are, if not within the jurisdiction of our subcommittee, at least within that of the full committee. Until John Dingle and Jim Florio want to relinquish their rail authority, our jurisdiction will not extend to Conrail or AMTRAK.

I know that the Secretary wants to leave shortly, so keep that in mind. Mr. Snyder.

Mr. SNYDER. Thank you, Mr. Chairman.

Mr. ANDERSON. I was not directing that at you.

Mr. SNYDER. I didn't intend to ask any questions on rail, Mr. Chairman.

I did want to make a couple of observations in view of the way some of the testimony has gone before I ask the questions.

One observation I might make to the gentleman from Pennsylvania, the last one, Mr. Edgar. In regard to SEPTA's problem with operating without subsidies.

On the chart that appeared in USA Today on February 26, 1985, on page 8-A, there is an indication that the State of Pennsylvania will have a surplus of $188 million and it seems to me that some of that might be dedicated to SEPTA.

Another observation I would like to make with regard to Chairman Anderson's attempt to equate the President's statement in regard to Social Security with the Mass Transit Trust Fund, 75 percent of the Mass Transit funding comes out of general revenues. That's not true with Social Security.

Another observation I would like to make with regard to Chairman Howard's observations about the unified budget. I am totally, 100 percent in agreement with him that trust fund matters ought not be in the budget in order to reflect on the deficit, but I don't want the impression to be left that that is the legacy of this administration.

This is the legacy of the Lyndon Johnson administration for the purpose of covering up the cost of the Vietnam war.

Obviously it has been used by subsequent administrations, including this one to cover up other costs, other than that and I am not in agreement with that, but on the other hand, I got the impression that maybe it was kind of an indictment of this administration that we had the unified budget which, of course it is not.

Mrs. Dole, you commented in response to a question in regard to the surplus in the trust funds, that those trust funds would be used solely for the purpose for which they were collected at some point in the future.

I know that is your opinion. I know that is what you want to happen. I know that is the position that you take when you gather with others that make those decisions, but as we know, that is not necessarily the opinion of OMB and/or Interior. They want to take the trust fund of the Cumberland Gap Tunnel and use it for fire protection and so I just point out that particular observation to you and I will address those questions about that to Mr. Barnhart because I know you're in a hurry.

Now, having made those observations, I was interested in Mr. Edgar, the gentleman from Pennsylvania's remarks about whether you found yourself in agreement with certain issues that your predecessor had taken under this administration.

I am looking at the testimony given here on July 18, 1979 by Brock Adams, who was one of your predecessors under another administration, with regard to operating subsidies.

I would like to read a portion of what he had to say and see if you find this administration in substantial disagreement with what he had to say.

Appearing on page 228 of the transcript.

> Mr. Adams. I am deeply concerned about operating assistance. I have deep reservations about it. Local authorities set fares and the local authorities establish costs, whether they be for maintenance, drivers or the matter in which they handle it. Therefore, if the Federal Government comes in and simply funds operating assistance to local areas for the control over the two factors that make the difference under the local control and we have found that generally the money that we put in does not improve the service. It simply goes into the pot to pay for what is there. That is why I am saying to local communities, since you have control over the fares, control over the costs, you ought to raise the operating subsidies because that means that you're making a local partnership that, after we build the system, the local communities run the system. The Federal Government is in a bad position to control costs.

You have placed us in a bad position being the Secretary of Transportation and the UMTA Administrators, when we go around the country and hand out this kind of money, the same as all the other areas, it goes out, does not build anything and it vanishes and the next year the bill is higher. That is my concern.

Do you find yourself and this administration substantially in disagreement with that statement?

Secretary Dole. I think that is a very articulate statement, Congressman Snyder. I appreciate your pointing it out. I couldn't have said it better. Thank you.

Mr. Snyder. Your testimony refers to the Department's intention to encourage private sector participation in the public transit program. Would you be kind enough to elaborate on this aspect of the program and indicate the extent to which you would expect any economy, proficiency in the operation to result?

Secretary Dole. I have referred earlier to some studies that I found very impressive. The University of Southern California and Rice University study that both indicated that, by use of private sector services, funding costs could be cut by 25 to 50 percent. I think we have a number of examples of communities that have responded in this way.

I mentioned earlier El Cajon, CA. They have been able to cut their overall costs by about 5 percent. Phoenix, AZ, they have estimated that they have saved about $700,000 annually by substituting privately contracted demand response service for their Sunday fixed-routes schedule. This amounts to about 5 percent of that city's total transit cost.

In Westchester County, NY, they have contracted with 16 separate private bus companies to operate the entire county-wide bus system. Their cost there is about $3.7 million, which is considerably less than the $8 million spent by neighboring Nassau County which carried several million fewer passengers than the Westchester County system.

I referred to Norfolk, VA earlier, I think their work is very impressive because they have looked at a number of innovative ideas and have come up with private sector services that have cut the subsidy about 64 percent per passenger. I think there is a great deal that can be done in this area that has not been fully explored yet.

In fact, Administrator Stanley, the Urban Mass Transportation Administrator, has set up an Office of Private Sector Involvement at their request to provide a focal point for the private sector, so that they can understand fully the programs in the government and how they might participate in contracting and independent services. They would also encourage the kind of thing that happened in Detroit where there was private sector involvement in the people mover there, private sector investment.

We feel that this will also help to bring the private sector more into transportation planning as far as van pools and car pools and high occupancy lanes and the kinds of things that can be done to make a difference in that area as well.

So, I think there is great potential here.

Mr. **Snyder**. I have a fair number of questions, but I know you're under time restraints and we're not getting around here very fast. I'll ask one other.

The Transportation Study Board, Research Board, I'm sorry, that study of the 55-mile-an-hour speed, made no recommendations concerning the desirability of maintaining 55 on rural Interstate highways for safety benefits apparently are somewhat less than elsewhere. You have put substantial emphasis on safety under your duties down at the DOT and I am wondering if you would have any comment on the merits of keeping or changing the speed limit.

Secretary **Dole**. Congressman Snyder, we are looking very very carefully at the report of the National Academy of Sciences and are in the process of reviewing that now because there are some complex issues discussed in that report. I am still in the process of working through it and reviewing it with the staff.

Let me just add that as far as the 55 mile-a-hour speed limit, we are vigorously enforcing the present statute so we obviously monitor and oversee what the States are doing. There are three States, Vermont, Maryland and Arizona where we have issued show cause letters to the respective Governors. We have held an informal hearing with Arizona to review that State's certification data.

I hope within the near future to finish the review of the National Academy of Sciences study and to have a definitive answer on that question.

Mr. **Snyder**. At which time you will forward it up to the committee?

Secretary **Dole**. Share it with you, yes.

Mr. **Snyder**. I would appreciate that. Thank you.

I do have these other questions, Mr. Chairman, that I had prepared for me, but we do have time constraints this morning. I will relinquish my time.

Mr. **Anderson**. I will also relinquish my questions too and submit them.

[Additional questions from Mr. Anderson and responses, see page 529.]

Mr. ANDERSON. I do want to make one comment, however, on something you said to Congressman Edgar.

We negotiated with the administration back in 1981 and 1982 when you wanted to cut operating assistance and we agreed on a compromise that did cut and it capped the amount that a system could use for operating.

You were effective, in that we did give, at that time, but now you want to take even more and that is what upsets me, that the administration doesn't feel bound by the compromise that we all negotiated in putting our package together and I suppose that is the thing that bothers me in this whole thing.

I thought we had an agreement with them when did cut it and we capped it and that——

Secretary DOLE. We capped it at what, about a billion?

Mr. DERMAN. We capped it somewhere between—as I remember we capped it somewhere between $800 and $900 million.

Mr. ANDERSON. I know that we thought we had gone a long way when we gave up at that time. Mr. Rahall.

Mr. RAHALL. Thank you, Mr. Chairman.

Madam Secretary, I had some questions to follow up on what some of my colleagues said earlier on the proposed Conrail and Norfolk Southern sale, but acceding to the Chairman's request or demand, I shall defer those questions, since they do not come under this committee's jurisdiction.

Secretary DOLE. I would be very happy to talk with you about those questions, to meet with you and talk about any questions that you have in that area.

Mr. RAHALL. I appreciate that. They do relate specifically to the shipment of coal under the proposed merger and I also would want to emphasize the commitment you gave my colleague from Pennsylvania, Mr. Edgar, that there will be no short circuiting or short cuts around the legislative process, especially through the attachment of the sale to a Senate Budget reconciliation. I was heartened to hear your words in that regard.

My specific question relates to section 109 of the Surface Transportation Act of 1982 and I know that perhaps Mr. Barnhart, who is sitting behind you, would be best equipped to answer this question, but in that section, we authorized a program whereby States may give priority to projects for reconstruction, resurfacing, restoration or rehabilitation of energy impacted roads. For such projects the Federal share is 85 percent.

What I am looking for is an update on this program. How many States have taken an interest in taking advantage of this section and how much has been actually obligated under this program.

Secretary DOLE. I hope that Administrator Barnhart has that on the top of his head, but if not, I am sure we will provide it for the record. I'm sorry, but I don't have information.

Mr. RAHALL. I appreciate that. I have looked through your testimony and Administrator Barnhart's testimony and I have not seen that particular section addressed.

Secretary DOLE. I think we may need to provide it for the record.

Mr. RAHALL. I appreciate that.

[The following was received for the record from Secretary Dole:]

ENERGY IMPACTED ROADS

To date five States have used the provisions of Section 109. These States, and the amounts they have obligated under the provisions of Section 109 as of March 21, 1985, are as follows:

Obligated as of March 21, 1985

State:	Amount
Indiana	$2,872,519
Kentucky	4,031,019
North Dakota	3,692,110
Pennsylvania	20,199,921
Vermont	155,550
Total	30,951,119

Mr. **RAHALL**. I shall submit my other questions for the record.

Secretary **DOLE**. And I will look forward to visiting with you on Conrail.

Mr. **RAHALL**. Thank you, Madam Secretary. Thank you, Mr. Chairman.

[Subsequent to the hearing, additional questions were submitted to Secretary Dole from Representative Rahall, the questions and responses follow:]

QUESTIONS SUBMITTED BY REPRESENTATIVE RAHALL

SECTION 18 RURAL PROGRAM

Mr. **RAHALL**. What is the Administration's proposal for the Section 18 rural program?

Mrs. **DOLE**. Our budget proposes to fund the transit program in fiscal year 1986 with the one cent from the gas tax that goes into the Mass Transit Account of the Highway Trust Fund. The Transit Account has a fiscal year 1986 authorization level of $1.1 billion, and our proposal would provide 2.93 percent of that amount for the Section 18 program - $31 million. This particular percentage was chosen because it is the percentage used under current law for the Section 18 portion of the Formula Grant programs, and although our proposal would switch the funding source for the rural program from the General Fund to the Transit Account of the Highway Trust Fund, we believe this would provide an adequate and fair level of funding.

TRANSIT FUNDING FOR WEST VIRGINIA

Mr. **RAHALL**. In fiscal year 1983 the average amount of Federal assistance for West Virginia Urban Transit Systems was 32 percent. Can you compare this percentage of Federal assistance with the national average?

Mrs. **DOLE**. I assume you are referring to the Federal level of funding of a transit system's operating costs. The national average of the amount of operating expenses covered by Federal assistance is approximately 10 percent. We have found that the percentage of Federal funding is lowest in the largest cities—New York, for example. On the other hand, many small and medium-sized cities rely substantially on Federal operating assistance and in these areas the Federal percentage may rise as high as the maximum permissible percentage—fifty percent.

IMPACT OF OPERATING ASSISTANCE CUT

Mr. **RAHALL**. Given the Administration's proposed elimination of operating assistance, do you realistically expect farebox and local revenues to provide adequate funding to continue transit operations without having an adverse impact on ridership?

Mrs. **DOLE**. This Administration consistently has proposed the elimination of Federal operating assistance. We believe the factors that give rise to operating costs - fares, service levels, labor costs - are local ones that should be paid for locally. In answer to your question, I think that there are a variety of alternatives available at the local level to make up for the loss of Federal assistance. The alternatives could include increased State and local assistance, higher contribution from sales and other taxes, reductions in less efficient services, and other actions to improve productivity and control costs.

Mr. **Anderson**. Mr. Gingrich.

Mr. **Gingrich**. I would like to relinquish my time to Mr. Molinari.

Mr. **Anderson**. Mr. Molinari.

Mr. **Molinari**. I thank the gentleman and the chairman for recognizing me.

Madam Secretary, I must say that I don't agree with everything that you have said today, but I agree with a lot of it.

One thing that did concern me and has concerned me for some time and you touched on it earlier in your testimony, were some of these projects that we financed based on projections of revenues and passenger flow, such as, I think it is called the Metro Rail System in Miami, and you cited the figure today that passenger service is about one-tenth of that which was projected.

Now, if that is accurate, I don't recall what the Federal Government's matching share was. I think it was 80 percent.

But you also mentioned something interesting to me and that was that criteria has been set up by your department to deal with this issue and I think, I'm hoping that we an learn from you what this criteria is because it seems to me, facing the serious problems that we do, we have to stop this hand out based on projections that, in the past, I believe, were furnished to us by local government as long as Uncle Sam was there ready to hand out the checks.

Now, I was down there and we did a hearing and Mr. Stanley did a superb job on trying to keep the tempers down on an Investigations and Oversight hearing, and I rode on that system, but one-tenth of that which was projected, that's abominable and it's the kind of thing that we just simply can't afford anymore

What is the criteria that you have been talking about that we could look to in the future to assess whether we should get involved or shouldn't get involved with capital outlays?

Secretary **Dole**. It's basically cost effectiveness. It's based on ridership projections. Maybe Ralph Stanley could lay that out in detail when he comes up to testify, Congressman Molinari.

But, this was worked out very carefully and it's basically the same criteria as H.R. 5504.

Mr. **Molinari**. That was last session.

Secretary **Dole**. That was the last session, right.

Ralph, if you would go into detail on that, I would appreciate it.

Mr. **Molinari**. OK, then I will defer any further questions on that score until Mr. Stanley appears.

This morning there was a great deal of fanfare about the Metro Rail System here in Washington and you are going to fund an extension of that line. Are there projections there as to what the revenue flow is going to be? Are we going to have deficits facing that line in the near future and the taxpayers of this country, those that are screaming at all of us about the cut back and operating aid and capital assistance.

Secretary **Dole**. Let me just clarify that. I think the newspaper article was not accurate and this is definitely something that Mr.

Stanley is going to want to talk with you about when he comes to the table. Basically, it was an invitation for Metro to come in and sit down and talk. It was not an approval. It was not what it appeared to be. I think some clarification is definitely needed there, that this was simply an indication of agreement in principle and an invitation to come in and talk.

Mr. MOLINARI. There has been no definite decision yet that has been made?

Secretary DOLE. No, that's right.

Mr. MOLINARI. And there will be further consideration given to a study of the passenger revenue?

Secretary DOLE. Basically it was whether or not this is an operable segment. There are many considerations which have been before the Urban Mass Transportation Administrator and I think his letter was purely an invitation to come in and talk. It was a matter of just agreement in principle, but not to specifics and not an approval.

Mr. MOLINARI. I'm happy to hear that. There again, I will defer any questions to Mr. Stanley when he appears as a witness.

One last question that concerns me. Back in New York City where we have had attempts by the private sector to deal with the mass transit problems that we have. We have had a reign of terror conducted by the transit authority and the mayor's office, in some cases, where they had the transit police pull over the van operators, harass them. There have been all kinds of civil rights violations. As a matter of fact, a study has been conducted and there was a grant made by UMTA to study that situation. The final report has not yet been issued.

But here you have legitimate attempts, and in some cases, operator's licensed by the State of New York, pre-empts local law, I think, and a concentrated effort by local government to prevent what they consider the siphoning off of the cream when, in fact, they were not providing that service.

Now, as we look at the budgetary problems that we have and the cut back in aid, will your Department be getting into that area? Will you not be trying to assist the private sector so that there can be less reliance?

I will not defend the city of New York. They have thrown more money at that mass transit system and the more they throw at it, the worse it gets and the less passengers that we have and the system is deteriorating badly, but I think that we need some help and those who are in the private sector are endeavoring to assist the commuters to get to work, having nothimg but a hard time.

Is there something that we can look to your Department to for some assistance in thar regard?

Secretary DOLE. I think we need to discuss that further. We do have a new Office of Private Sector Involvement in the urban mass transportation area and I think this provides a focal point to address problems that come to the surface. I would like to follow up with you on this to be a little more specific and to be sure I understand exactly what you are focusing on.

Mr. MOLINARI. Well, fine. I think you make a good point and I think it might be better not to waste the committee's time but I would welcome that opportunity.

Secretary **Dole**. This is a new initiate that Ralph Stanley has gone forward with which I think is a very good one. It provides a focal point in the Department for private sector concerns and provides for exchange of information as to a full range of our programs, where they might impact and where there might be private sector investment in public transportation projects. So certainly there are a range of issues that can be focused on within that office, but I would like to discuss it with you further because I am not sure I totally understand the thrust of your concern.

Mr. **Molinari**. Well fine, I have just been handed a note telling me that you must leave shortly, so I will defer any further questions, and we'll take that up later.

Secretary **Dole**. I'll look forward to following up with you.

Mr. **Molinari**. Thank you very much.

Mr. **Anderson**. We do have a problem here. We have eight members who have not yet had a chance to ask a question, and I am told that you have to leave in about 10 minutes.

So keep that in mind. We would like to move fast.

Next will be Mr. Moody.

Mr. **Moody**. Thank you, Mr. Chairman. Mrs. Dole, very briefly, I want to add my voice to those of my colleagues, to commend you on the quality of people that you have sent up here to work with us.

I particularly appreciate the time and the responsiveness of the UMTA Administrator, Mr. Stanley.

I agree with you that we have some serious fiscal problems in our Nation. In fact, I think it is not an overstatement to say that we are sitting on a fiscal time bomb in the urban transit area. Cost revenues have been going up much faster—cost curves have been going up much faster than revenue curves and the ability of local governments, in some cases, are going to be exceeded rapidly.

In my own State of Wisconsin, we now provide more support for transit from the State level than we do from the local county level as an index of that kind of problem, but I think that time bomb is going to go off and we all need to look for ways to make the Federal dollar stretch further.

In that regard, it seems to me that you might want to consider eliminating the distinction between capital and operating support alltogether. I understand the OMB and other peoples objection to operating support, on the other hand, we also have the rhetoric of this in many other administrations that say that local government knows best. The local operators know best. Some transit systems, Mrs. Dole, are way over capitalized because they only cost 20 cents to buy a bus. They're buying too many buses and then they're locking themselves into very unfortunate situation.

As we move to an all capital program, if we do and I hope we won't, but if we were to, I wonder if you have considered the fact that this means that we're working against the private sector because, in my community, we use the private sector for elderly and handicapped, for example.

We have a taxi cab service which does it on a basis, handles that segment of the riding public. The rider pays the first dollar and the county picks up the rest of the taxi cab fare and you can envisage all sorts of other services where you might want to use the private sector to make dollars go further.

But if we go to an capital program, we are tilting the private sector.

For example, the private sector might come in to my community and say, we can do this job, we can do this particular job for you. My community says, maybe you can, but we get 80 cents on the dollars if we buy the vans ourselves and we own them, whereas if you go out and buy them, you have to pay 100 cents on the dollars and then if we support you out of operating funds, which is what is happening now with our E&H, of course that caps it at 50 cents on the dollar.

Why not take the rhetoric seriously that locals know best and somebody give them block grants, irrespective of the level. I would not want to be nearly as severe as you have suggested in cutting, why not simply allow the locals to use the money where they can use it best.

In some cases it's operating and in some cases it's capital. It's built in incentive to over capitalize systems and the built in incentive to squeeze out the private sector.

Secretary DOLE. A little earlier I had mentioned that if, indeed, there was major progress toward achieving the President's budget request, that I certainly would be willing to consider that kind of optional situation.

Mr. MOODY. But it cries out on its own merit, no matter how far we go on the President's budget request, I would not want to throw a good idea away simply because you did not get another idea, you also are pushing for, namely a sharp reduction.

In fact, if anything, it makes the dollars go further the less we achieve your goals of reducing the total level of spending the more, in fact, you can say the Federal dollars that are forced to go into mass transit should be used wisely. I don't see the connection in tying one to the other.

Secretary DOLE. There really is a very strong concern on the part of the administration about continuing, in any, involvement with operating subsidies. Of all the transportation issues, this has been one, from day 1, that the administration has felt strongly about. It is just not providing the kinds of incentives for streamlining and for increasing productivity and so on. As I say, I would be willing to consider that.

Mr. MOODY. I am asking you to consider that that philosophy is directly going against another part of your philosophy, namely promoting the private sector.

If you were to untie those moneys, you would find that there would be more optimization at the local level, both within capital and labor costs, right now you're pushing it toward capital, there are a lot of sub optimizations going on for that reason.

And, second, when and where the private sector, in fact, has indicated, you would free it up to be used. Right now tying it to capital. An all capital program, Mrs. Dole is an anti private sector program.

I don't know that your administration has considered, maybe they have, the contradiction in the two points of view.

I would urge you to reconsider that. I would be glad to talk about it with you further.

You mentioned points about deficit reduction and we all agree that we have to reduce the deficit and employment for so many other reasons, and one way to do that, of course, is to raise revenues.

I understand the President does not want to raise general revenues for a series of reasons, most of which I don't agree, but have you considered raising a user fee revenue, namely putting gas taxes at a more realistic level in this country?

If you look around the industrialized world, we have by far and away the lowest tax on gasoline. There are tremendous costs occasioned by the automobile on local government and on general government which are not captures.

I mention only one, court cases. Seventy percent of court costs in Wisconsin have to do with the automobile and yet none of those costs come out of the automobile, they all come out of general government.

We have, by European standards and by most standards, a very low tax on gasoline. If we're so squeezed and we want to bring the deficit down, why don't we raise gas taxes to a more realistic level, both to preserve conservation, secondly to reduce the budget deficit and third because a lot of that tax would be exported back to the producer in most cases overseas. It would be an exported tax burden.

Isn't the time ripe now to talk about raising gas taxes to a more realistic level?

Secretary DOLE. No, I don't think so. We believe that current revenues are sufficient to meet the Federal level of responsibility in the highway and transit programs. We believe that there should be more of a responsibility from the standpoint of the State and localities, in that, as has been indicated, many do have surplus' now. These areas are primarily a local and regional responsibility. I don't feel that we need to go into raising further revenues.

Mr. MOODY. Well you have defined the Federal responsibilities so low, I guess that is the answer that you can inevitably get, but if you define the Federal responsibility more in keeping with what we have been, up until now, agreeing that it is, I think you would not necessarily have that conclusion.

Regarding Federal responsibility and the philosophy of user fees. Are you saying that user fees should be added at the local level, should be adequate to cover anything that is not of national benefit?

Secretary DOLE. No. I am saying that at this particular point, we have to reassess the Federal and the State roles. Those functions that are more of a local and a State and regional nature should be carried out by the localities in whatever way they determine to support them but that it is a responsibility of the localities.

I am saying that in terms of my budget and the Federal level, we are at 70 percent user fees now and we anticipate moving to 85 percent. Basically we feel that where specific services are provided that do not impact on all citizens, but on certain people—for example, we're asking in this budget to go forward with Coast Guard user fees, to increase those fees, because there are certain services provided to boaters that the general taxpayer should not have to pay for. So we do believe in that principle of increasing the user fees with regard to the 1986 budget and where we are making cuts, basically they are in areas outside of the user fee area.

Mr. MOODY. Well, Coast Guard safety, you feel, should be put on a user fee basis. What about highway safety, why don't we put that more on a user fee basis? Why is safety a Federal responsibility? Safety, I feel, is a local—if my highways are safe in Wisconsin, why should that be set as a Federal responsibility? Why is safety so sacrosanct that it must be Federal and yet some of the other things are not? What is that safety has a very distinct local set of beneficiaries?

Secretary DOLE. Well, I think that there are some very definite national goals as well. The safety functions are my highest priority. I think that we have an opportunity, from the Federal level, to provide some real leadership in this area and I do see it as an appropriate Federal responsibility. Safety and health matters, I think, traditionally have been something that is appropriately in the Federal area.

Mr. MOODY. I am just asking you to square your boat safety philosophy with your auto safety philosophy.

Mr. DERMAN. If I might, Mr. Moody, I would believe that the boating safety aspect of the United States Coast Guard is much more targeted to a particular segment of a population whereas the national highway safety program is one national in nature.

Mr. MOODY. But you still put it under user fees. Our gasoline taxes are pin pointed merely to the wealthy. The gasoline taxes are paid by everyone who uses the highway. Everyone that uses the highway benefits from safety.

Mr. DERMAN. As a matter of fact, the section 402 program under NHTSA is, in fact, funded by highway user fees because it comes out of the Highway Trust Fund.

Mr. MOODY. How much of safety is funded by general revenues, if any?

Secretary DOLE. Everything in highways is user fees.

Mr. MOODY. My point is that safety is just as local as transit standards. Transit is very important as a national commitment and yet you would want to push that off on to local levels of decision making.

Why don't we put safety on the local levels of decision making? Let them decide in State X how much safety they want on the highways in State X. I am just taking some of the ideas that you're suggesting for other areas in transportation that are applying to safety. I don't really want you to do that with safety, but it is as legitimate as some of the other things that you are proposing.

Finally, I would make one last point, if I could, Mr. Chairman. Frequently the funding decisions in local urban mobility, the pipelines. The money comes down by way of highway funding or the money comes down by way of transit funding, those that drive the decisions.

It seems to me what we often need is an urban mobility fund where we recognize the substitutability of one mode for the other and the goal of the highway people should not be just to build highways in the urban areas and the transit people's goal should not be just to put more buses on the street, but to recognize the interaction between those two.

I wonder if you have considered doing that sort of thing, trying to somehow fuse that funding pool so there would be more rational decision making as a result, something like an urban mobility fund.

Secretary DOLE. Is the thrust of your question looking at the possibility, in the highway area, of a block grant? In fact this was raised in 1982 and a number of functions would be returned, as well as revenues, so that the States could make the judgments.

Mr. MOODY. No. The thrust of my question is that——

Secretary DOLE. Between UMTA and highways that there should be more of a funding pool.

Mr. MOODY. You have two pipelines of money between the two, at least two that I can think of, one is in the transit area and one is in the highway area and yet you can, by correct planning, you can often get an optimal combination of the two by treating it as one source of funding. Rather than build highways or put buses on the street, recognize that by reversing lanes, by car pooling, by——

Secretary DOLE. Congressman, there is coordination and I think that when you have the Administrators up here to answer these more specific questions, they can tell you how they do interact with one another and what kinds of overall planning there is. There is no question that certainly the two Administrations do talk with one another and there is direct communication in future planning.

Mr. MOODY. Thank you. My experience, at the local level, is that there is not nearly enough coordination, probably because the money does come down in parallel and separate fashion, but I will let that go. Thank you.

Mr. ANDERSON. Mr. McEwen.

Mr. MCEWEN. Thank you, Mr. Chairman. I just want to thank you, Madam Secretary for your testimony, having observed the edginess with which Members of Congress, in the 99th Congress have received cabinet members' testimony; I refer specifically to the Secretary of State's reception, in which he had to cease testimony before the Foreign Affairs Committee and then also the behavior in the Banking and Urban Affairs Subcommittee when Secretary Pierce appeared, in which a shouting went on, not unlike those watching wrestling matches. I am delighted to see that you refer to this panel as one that has received you graciously. Personally I am honored to serve on such a committee.

I appreciate your testimony here this morning. Thank you.

Secretary DOLE. Thank you.

Mr. ANDERSON. Mr. Kolter.

Mr. KOLTER. Thank you, Mr. Chairman.

I would like to preface my very brief interrogation with a statement. I think Mrs. Dole has done exceedingly well here this morning.

Mrs. Dole, have you ever taken a ride in bus or have you taken a ride in a bus recently?

Secretary DOLE. Yes.

Mr. KOLTER. You have?

Secretary DOLE. Yes.

Mr. KOLTER. Then you know what is going on. I would respectfully invite you and the Senator, if you should ever come to western Pennsylvania, to join with me, in a ride in a bus, in Beaver County or perhaps in Pittsburgh, with the PAT buses, to talk with some of the people who are being affected by some of the changes here.

In other words, a time where the Government gave hope where it was needed most, to the people who needed government on their side. You're talking about streamlining mass transit. As I read it, it seems that streamlining mass transit is really cutting services to the elderly and to those who are disabled.

Regarding section 16(b)(2), funding of transportation for the handicapped and the elderly. Have there been any studies made on how the affect of your cuts, what affect they would have on the elderly, what affect would they have on the handicapped?

Secretary DOLE. Let me say first of all that our proposal would continue funds for the 16(b)(2) program. That program would receive up to $35 million of the fiscal 1986 formula funds. This program has been strongly supported at the State and local levels and we do intend, definitely, to continue that program.

Mr. KOLTER. When you say the funding is set at $35 million. What was it last budget?

Secretary DOLE. It was 32.

Mr. DERMAN. $32 million.

Mr. KOLTER. So you have increased the budget?

Secretary DOLE. It's an increase.

Mr. KOLTER. Like I said, you're doing exceedingly well.

Under section 9, the Section 9 Formula Block Grant Program seems very successful and you have streamlined the grant making process. Can you tell me whether or not you foresee any changes in this program?

Mr. DERMAN. If you're talking about the Section 9 Formula Grant Programs——

Mr. KOLTER. How this would, for example, affect the Port Authority Transportation in Pittsburgh?

Mr. DERMAN. I don't have that on a city by city basis, but the budget is eliminating the discretionary grant programs. The formula grant program level would now be $1.1 billion distributed on a formula basis.

How that translates to individual city by city resource levels is something I will have to leave to Administrator Stanley, probably to provide for the record.

Mr. KOLTER. Well, the original question was, do you expect to make any changes in this program?

Mr. DERMAN. In what way? In terms of the level of funding or in terms of——

Mr. KOLTER. Level of funding, for example.

Mr. DERMAN. As I just indicated, the Section 9 Program funded from general revenues would be eliminated as part of the 1986 budget proposal.

Secretary DOLE. The formula grant would then be based on the $1.1 billion level, one penny of the 5 cent a gallon increase. That is, the formula grant program would be the $1.1 billion, using funds from the user fee.

Mr. KOLTER. Then I guess that would satisfy my interest in this matter then. There is a change that would be in effect for this next budget coming in?

Secretary DOLE. For fiscal year 1986.

Mr. **Kolter**. For fiscal year 1986.

Mr. **Derman**. That's right.

Mr. **Kolter**. Thank you very much.

Mr. **Anderson**. Mr. Andrews.

Mr. **Andrews**. Thank you, Mr. Chairman. I have just a few questions. What happens when you're junior on a committee, you have to wait 2 hours to ask 3 minutes worth of questions.

I am reminded of what I was told when I first got to Congress by an older member when I complained about the seniority system and he said, stick around, the longer you serve in Congress, the more you'll like it. That's true sometimes on these committees.

Mrs. Dole, I would like to address your attention to Houston's specific problems and where you see Houston in the coming budget.

We have, I think, been very successful in our 2 percent tax, our sales tax, in terms of incurring our own operating expenses and raising our funding and I wonder if you would comment, in general, about Houseton's progress and where you see Houston in your criteria that you have outlined earlier in your testimony?

Secretary **Dole**. Indeed, you have made very good progress, it's impressive. While we have determined that new start funding should be terminated, we anticipate coming back to the Congress with a reprogramming request which would mean that all projects, which are under full funding contract would be funded. We would also be seeking to go forward with those systems which could be completed from the reprogramming of the 1984-1985 budgets. Houston is one that is under consideration in that regard. It is high on the list. It is under review right now as one that could be completed with the funds from the past two fiscal years.

Mr. **Andrews**. When you say it is under review right now, what does that mean, what is the time table?

Secretary **Dole**. We're looking at this whole area and we will be coming back to the Congress very shortly with a reprogramming request to utilize remaining funds, to complete full funding, those under full funding contracts and a few more that could be completed under existing funds and Houston is one. I think you can expect that reprogramming request fairly soon.

Mr. **Andrews**. How would you characterize Houston's ability, at local funding and private funding, compared to other cities. You mentioned Detroit earlier in your testimony.

I wonder if you would care to characterize both cities efforts because each city, I think, represents two different approaches to the same problem.

Secretary **Dole**. I think there has been quite an effort, in terms of raising funds. The city has made impressive headway, no question about that. Of course you're looking at a number of different possibilities at this point, but I am not sure I can say more than that it is very impressive, the commitment that has been made on the local level and I would hope that other cities would regard it as a model because, you have really made very fine headway in terms of local participation and local commitment.

Mr. **Andrews**. Other than local funding that you have alluded to, are there other criteria that you think are going to be important? You mentioned that Mr. Stanley is going to testify, I think, in more detail, about that criteria.

Secretary **Dole**. There are a number of criteria the cost effectiveness, ridership amount of local participation, amount of minority business participation, but I think that it would be best of Mr. Stanley really laid it out. Those are the key aspects, the cost effectiveness, the alternatives the local commitment the private sector commitment, the community involvement, minority business, and ridership. These are some of the criteria that we have looked at.

Mr. **Andrews**. Thank you very much.

Mr. **Anderson**. Mr. Atkins.

Mr. **Atkins**. Thank you, Mr. Chairman.

Mrs. Dole, could you tell me in your office of private sector initiatives, are you doing anything to look at the Department's regulations and the way in which they inhibit private sector initiatives?

Secretary **Dole**. I would think that everything is open for review in terms of deregulation efforts. We have been a leader in the Government in deregulation and if, indeed, there are aspects of our regulations that are inhibiting the private sector, yes, indeed, they will be up for review.

Mr. **Atkins**. Let me focus on one, if I can. When a community gets UMTA funding to build a capital project, your regulations make it impossible for any private vendors to come in and rent or lease space in that transportation facility and, for instance, in Massachusetts, we just opened up a major, it was over a half a billion dollar cost, transportation extension to our transportation or transit system. It's estimated that if they were to allow private vendors in there with flower stands, newspapers, candy, small restaurants, sandwich shops and so forth, we could generate well over $100,000 a year in revenue from rentals and so forth, but they are prohibited from doing that, which not only inhibits private activity and, reduces the revenue to the transit system, but also denies the public what would be a convenience. Do you have any plans to address those regulations that make it impossible for those private vendors to lease that space?

Secretary **Dole**. This is an issue that Mr. Stanley will address when he comes to the table.

Mr. **Atkins**. Are you aware of anything on your own that is being done in that area?

Mr. **Derman**. It is my understanding, Mr. Atkins, that it is unclear as to whether or not our regulations do, in fact, prohibit that. I do not believe that they do, but Mr. Stanley will be able to elaborate more broadly on that particular issue.

Mr. **Atkins**. Thank you.

Mr. **Anderson**. I have just one clarification. As I found some points were a little unclear in your discussion with Mr. Andrews.

Are you considering giving Houston a grant for a new start project?

Secretary **Dole**. No. I said there were some under consideration that could be completed through funding from fiscal year 1984 and 1985. The issue is, in the funding that we have now, how can that be utilized best. It would be best to complete those that are under full funding contracts or those that could be completed within existing funds.

Mr. **Anderson**. Do they have a full funding contract?

Secretary **Dole**. No, they don't.

Mr. **Anderson**. I was just wondering. I had the impression that you were telling him that you were going to reprogram for Houston.

Secretary **Dole**. No. It's all under review right now. We will be coming back to Congress with specific recommendations for reprogramming the funding that does exist.

In other words, we are——

Mr. **Anderson**. What funding that exists where?

Secretary **Dole**. As I mentioned, it would be to meet existing commitments to those projects that are under full funding contracts and they would be basically Santa Clara, Portland, Detroit and Jacksonville. Those are under full funding contracts.

Mr. **Anderson**. Then that would not include Houston.

Secretary **Dole**. We are also considering worthy projects such as Houston and Atlanta which could be completed within the currently available funding for new starts. The bottom line is not to leave any holes in the ground.

Mr. **Anderson**. So you are not canceling any new starts then?

Secretary **Dole**. That is existing that could be completed under existing funds, fiscal year 1984 and 1985 funds.

Mr. **Anderson**. "Under existing funds," where are those existing funds now?

Secretary **Dole**. They are earmarked.

Mr. **Anderson**. For whom?

Secretary **Dole**. The Congress earmarked the funds.

Mr. **Anderson**. Are you going to take them away from someplace where they had been earmarked?

Secretary **Dole**. Yes, indeed, that is exactly the point.

Mr. **Anderson**. And you are doing this to make a new start in Houston.

Secretary **Dole**. In other words, to finish something that can be completed, something that won't take $4.5 billion to complete or that is beyond the budget.

Mr. **Derman**. We will be submitting a reprogramming request to the Congress for those funds previously earmarked.

Secretary **Dole**. They are all earmarked. It's just a matter of choosing among the earmarked those that can be completed.

Mr. **Anderson**. So your reprogramming essentially means taking it away from someplace where it is already earmarked and transfering it to a place like Houston.

Secretary **Dole**. It's already earmarked. We can't complete the earmarks.

Mr. **Anderson**. Is there something earmarked for Houston?

Secretary **Dole**. They are all earmarked.

Mr. **Derman**. There is something.

Mr. **Anderson**. No, I am not sure what they did. That is what I want to find out.

Secretary **Dole**. In other words, to complete——

Mr. **Anderson**. I thought that there were no new starts.

Secretary **Dole**. It's a matter of choosing among the earmarks that can be completed within the existing available funds.

Mr. **Anderson**. However, Houston would be a new start, and yet you said there are not going to be any new starts.

Secretary **Dole**. In 1986 and beyond.

Mr. **Anderson**. In other words——

Secretary **Dole**. The fiscal year 1986 budget.

Mr. **Anderson**. Fiscal year 1986 and beyond, then there will be new starts after that, is that it?

Secretary **Dole**. No. There is some funding available from fiscal year 1984 and 1985. Among all the earmarks that the Congress earmarked, some can be completed under fiscal year 1984-1985 budgets. We're not going for any new start funding in fiscal year 1986. It's just how to rationally use the funds that are left among all the projects that were earmarked. To complete all of the earmarked projects would be $4.5 billion.

Mr. **Anderson**. I wonder if you could submit what you have just told us, in writing, so we can actually see what you are saying.

Secretary **Dole**. Surely.

Mr. **Anderson**. Because it sounds very confusing to me that you are planning to take away from those projects that are earmarked and give to some place that now does not have a letter of full funding or does not have a start, but give them a new start after you are saying there are not going to be any new starts, I really do not understand.

Secretary **Dole**. I would be happy to submit that.

Mr. **Andrews**. Could the chairman yield?

Mr. **Anderson**. Sure.

Mr. **Andrews**. I want to be sure that I understand about Houston now too.

Secretary **Dole**. I think if we could let the Administrators respond to these more specific questions. They really should be addressed to them.

Mr. **Andrews**. I understand that. But, while we have you here, I want to be sure that we understand the commitment that we have.

Secretary **Dole**. You don't have a commitment yet. Please, I should not have even mentioned any specific names here, I can see that.

We are going to be submitting a reprogramming request and we are considering Houston and Atlanta among others, to be included in the reprogramming request. The decisions have not been made on that.

Mr. **Andrews**. I beg your pardon.

Secretary **Dole**. The decisions have not been made yet. It will be submitted in a reprogramming request.

Mr. **Andrews**. And do I understand that one of the prerequisites is whether or not the system can be completed, is that right?

Secretary **Dole**. Under fiscal year 1984 and 1985 funding.

Mr. **Andrews**. In Houston and I assume, in Atlanta and the other cities you have mentioned all fall into that category.

Secretary **Dole**. That's right.

Mr. **Derman**. They appear to, yes.

Mr. **Andrews**. They appear to.

Secretary **Dole**. It's being reviewed. We have no final answer for you today. It's simply under review and there will be a reprogramming request which means the Congress will get another chance to go into this in detail.

Mr. **Andrews**. And it is your assumption, I guess, that those cities which you have mentioned are worth reviewing?

Secretary DOLE. They are worth reviewing.

Mr. ANDREWS. Are worth reviewing.

Secretary DOLE. That's right.

Mr. ANDREWS. All right.

Secretary DOLE. They are worthy programs that should be reviewed and may possibly be included in the reprogramming, but at this point, there has not been a decision.

Mr. KOLTER. The gentleman from Texas should be aware that the request for reprogramming will not come to us, but will go to Appropriations.

Mr. GINGRICH. Mr. Chairman.

Mr. ANDERSON. Mr. Gingrich.

Mr. GINGRICH. I want to thank the Secretary for being here and I just want to clarify two points that I think the chairman has begun to develop and I would like the Secretary's comments.

First, is that the Congress rather capriciously has been willing to start a range of programs which, if costed out would be unbelievably expensive and for which the Congress has no particular means of paying. I think, in that sense, the Secretary is faced with an almost impossible job of, if we were to say to you, tell us what we would have to be willing to finance over the next 25 years to finish everything we are promising back home, the public works, in terms of mass transit, like so many areas in the welfare state, has become an area of easy early promises and impossible later payments. Is that a fair summary of your testimony?

Secretary DOLE. Yes. The earmarks from this past year would cost about $4.5 billion to complete and completing the 50 projects that have been discussed would be about $20 billion.

Mr. GINGRICH. I would like to raise, if I might, a second point and I am not sure the Secretary wants to get too directly into this, but I would appreciate any wisdom you could offer.

It does seem to me that it must be very frustrating to you to come to the authorizing committee, which has the legislative authority under the rules of the House and then discover that various appropriations subcommittees, apparently in violation of the rules of the House, are systematically deciding, on their own, what they will authorize and appropriate and in that sense, it would seem to me that every member of this committee and I think every member of every authorizing committee has a vested interest in looking at the way in which the Appropriations Committee, in small rooms, deliberately designed in the Capitol to avoid large audiences is deciding, on its own—I think we ought to be honest about this. The Appropriations Committee has a game going in which they have massive power because on almost every front now, they do whatever they want on both authorizing and appropriating, come to the floor at the last minute with a massive aggragate bill and say, either pass this entire document, which you have never read and which we wrote up late last night and which we can't quite explain to you and then later they turn and say, see, it's now law and, in that sense, aren't you faced with an almost impossible job of adjudicating between the authorizing committees, which appropriately are making the large scale decision and the seizure of that authority, by the Appropriations Committee with you sort of in the middle.

Secretary **Dole**. Well, I think you stated it correctly when you said maybe the Secretary would rather not comment extensively. Let me just say that there are a lot of challenges in life. I appreciate your statement.

Mr. **Anderson**. Thank you, Madam Secretary. I know you have to go and at this time we will recess for lunch and come back at about 1 o'clock.

Afternoon Session

Mr. **Anderson**. The subcommittee will please come to order.

We are going to proceed somewhat out of order this time. I am waiting for Mr. Shuster to be here at which time we will start the statements of each of you.

In the meantime, Congressman Snyder feels that he has a couple of question he would like to direct to Mr. Barnhart that do not necessarily relate to their statements anyway and so we will proceed that way and then after Mr. Snyder asks those questions, then we will go back to having you make your opening statements.

Mr. Snyder, the floor is yours.

Mr. **Snyder**. Thank you, Mr. Chairman. I appreciate it. I do want to catch an airplane and getting these two out of the way will relieve the information from all the other ones that I had to ask. They're the winners in the long run.

The first question I wanted to ask you, Mr. Barnhart is. Will you be sending legislation up to transfer the Bureau of Motor Carrier Safety from the Federal Highway Administration, National Highway Safety—well, NHTSA.

Mr. **Barnhart**. Mr. Snyder, the Secretary had sent up such legislation a year ago. I think that we will not seek to have it be reintroduced at this time.

Rather the Secretary has directed that we establish a new structure, reorganize BMCS within the umbrella of Federal Highway Administration. I think it will work very effectively. Certainly we have some very serious problems out there which we are aware of and I think that this committee will be very pleased with what we finally end up with in this organization.

We will establish a new Associate Administrator for Motor Carriers and retain the BMCS as a unit of its own integrity within the umbrella of Federal Highway Administration, so if subsequently there should be a desire to move BMCS into another administration or combine it with something else, it can be facilitated without totally disrupting the whole operation again. The trucking industry has wanted a separate administration. I do not think that is in the books. I don't think there are enough people with enough resources to justify it within the typical Government structure. I think we will have a far more effective program than we currently have. We're in the process of doing that right now.

Mr. **Snyder**. We won't see that one from Congress, apparently.

Mr. **Barnhart**. No, sir. And that will eliminate that problem of a conflict on jurisdiction.

Mr. **Snyder**. I appreciate that. The other question that I had, I alluded to, this morning. The budget, and it's causing a lot of heartburn to my colleague, Hal Rogers down in the mountains of Kentucky.

The budget proposes to abandon plans to construct a tunnel and relocated a portion of U.S. 25 east, passing through the Cumberland Gap National Historical Park. The budget document and related materials furnished to the committee indicate that out of a total of $42 million, contract authority made available, from the trust fund, fiscal years 1984 and 1985, by $38.2 million remains available.

To further understand that the budget assumes a deferral of that amount and transfer of the funds, the trust fund funds, to the Interior Department for increased pay costs and to repay transfers for fire protection in 1984.

This evidentally is not the doing of the Highway Administration and I suspect that OMB and/or Interior are responsible.

As the top highway man in administration, I want you to answer these questions about that proposal. It's a three part question and I'll put them all in and you can take them as you want them.

First, what is the propriety or even the legality of using highway user dollars from the trust fund for the purposes indicated in the budget for pay costs or for fire protection?

Second, has this sort of thing been done before, do you have knowledge? Third, we understand that a portion of the funds, $11 million or so, in the 1984 fund, has already been the subject of deferral requests last year, the deferral request that was denied. What is the propriety or legality of a double dip deferral, going after funds when Congress has already refused to defer it?

Mr. **Barnhart**. Mr. Snyder, I think you were correct, the actual merits of the tunnel itself should be addressed by Interior rather than Federal Highways since we simply respond to Interior. So, I will not address the issue of the merits of the project.

As far as the propriety of the switch of funds, let me say it was done without the knowledge, consent or the approval of the Federal Highway Administration.

And, from our perspective, we think that it is highly irregular and frankly I think it is a diversion that is uncalled for to fund other things from the trust fund that are not directly aligned with transportation purposes.

So, I can only say, in all candor, that I frankly do not approve of it.

Mr. **Snyder**. I appreciate that. I don't know about the propriety or really whether the tunnel ought to be built or not, but I do have serious concerns with taking trust fund money, use it to pay pay costs or fire protection costs over in the Interior Department. I appreciate that and I appreciate the chairman letting me ask these questions before we got into the presentation that you got to make.

Thank you very much.

Mr. **Anderson**. At this time, we will go back to our normal procedure and we're going to have all three of you make your opening statement in order of Mr. Barnhart, Mr. Stanley and Ms. Steed. Then we will ask our questions of you individually. I chose that order, not on any basis of importance or ability or age or anything, rather it is strictly alphabetically.

So, you may start, Mr. Barnhart.

Mr. BARNHART. I guess that's right.

Mr. ANDERSON. That's right. I checked it and you're No. 1.

We do have your prepared statements and they will be made a matter of the record in their entirety, so you can handle them anyway you wish.

Mr. BARNHART. As far as a statement goes, I said, I would have none, but I would like to make some comments that I feel very strongly about and some, perhaps would not be germane to the jurisdiction of this committee, but I think it impacts on this Federal-Aid Highway Program and so I would ask your indulgence as I outline some of my concerns about a program which I think is, in fact, one of the most well run, orderly and cost effective programs and most valuable programs in all of Federal Government.

I want to thank this committee and you all who are here especially for your leadership and advocacy in permitting the clean ICE bill to become law for I recognize that not only with leadership, but if you had not affirmatively approved that and worked for it, it would not have seen the light of day in the house.

So, I do thank you and I know that I speak for all of the highway industry for they too were so dependent upon this and your efforts have not gone unnoticed, to say the least.

Additionally, I am not unmindful of the conflicting emotions, the dilemma that confronted you as members of this committee who have most genuinely worked to make this program the effective program it is and your concern for that program, from the national perspective, and yes, at the same time, having to face the reality of the demands from your respective districts, from people who expect, because of your prominent positions here, that you would deliver to them preferential treatment over the balance of the country. So I recognize that it has put you in an awkward position within some of your selective congressional districts and that is appreciated.

I think as we have heard the testimony this morning, we all acknowledge the tremendous needs that are there on the system, not only for today, but for the next 10 or 15 years and how important it is that we act expeditiously in getting these projects underway.

We recognize the shortfall of funds, even to address the very real Federal responsibilities in the total transportation picture and, yet, as I travel around the country, I have people constantly call for an increase in Federal taxation. I have been unwilling to do that because it seems to me that we should more wisely and fruitfully use the funds that we have available.

I do not think that we are getting full value for the dollar we put into the Federal-aid highway problem, not because of derelictions on the part of the Federal Highway Administration or its career people nor because of deficiencies in State highway departments.

But, rather because of some of the laws that constrain us and demand that we not use prudence in distributing these funds and allocating it to projects.

I have, around this country, applauded the careerists that I have found in Federal Highway Administrations. I want to repeat that here today for the record and for this body, because I mean it most sincerely. I do not do this to embarrass those who are with me from the Federal Highway Administration, but only because I think their commitment to this program and the country merits commendation for I think I have found here, in Federal Highway Administration, some of the most professional and conscientious and caring people I have ever been associated with.

But, at the same time, we find that the Congress, through its actions have forced us to approve projects or to delay projects or go through procedures which are not, in fact, cost effective.

And so, rather than asking for increased funding, I would ask this committee to do something that is even more difficult and that is to help us straighten out some of the contradictions for I am convinced that we could get far more value from our dollar if we had but the opportunity.

Several of the Senators called a couple of weeks ago and said while we admit that the highway program because of the trust fund, does not contribute to the deficit, for symbolic reasons, we feel that all people should take their cuts and we want to take a half a billion dollars from your program. My position then was, take that half billion but give us programatic changes because we can pick up the purchasing value in excess of half a billion dollars with some of these changes. But some of those changes would not be looked on with favor by some people and I think, primarily because of perception, not because of reality.

When one stops to think that the average time that it takes from a project concept, just to the issuance of a contract, approaches 7 years, there is something wrong with our system.

We spend so much time in planning that planning becomes an end in itself and when we have then made the plans, the law permits a handfull of people to seize that law, to sue, to stop, to thwart the completion of that project and all people suffer.

Let me illustrate. H-3, I think some of you have had a briefing about that interstate in Hawaii, going from Honolulu across the island to the Marine base.

It has been in planning for 12 years now and the road was laid out in conjunction with a park and not the normal kind of park that we think of as being the sacred land. Rather this was a little park that I understand you can reserve from Thursday through Monday to have a barbeque or a hot dog roast.

But the road was laid out to circumvent that park so it wouldn't intrude on it. As additional planning came in, they decided they would more that road even further away from the park so that the road would not intrude into that little park at all.

Then what happened? All this was done in a cooperative relationship with the environmentalists so the road was moved out and they had a buffer zone. Then they decided, that, there would be increasing pressures to commercially develop that buffer zone, so to preserve that park, they brought the boundary of the park up to the new right-of-way alignment.

And then we are sued and the 9th Circuit Court sustained that challenge because of what they termed constructive use of that land as a park.

Twelve years later and costs have gone from some $231 million to a projected cost of something approaching three-quarters of a billion dollars. That just has to be paid by taxpayers and I don't think it is an environmental issue. I think it's a gimmick where people have used the law.

Look at Alligator Alley, a two lane toll road in Florida, 76 miles long, mandated by the Congress to be eligible for interstate construction as a four-lane divided roadway.

That two-lane roadway, currently carries 3,653 vehicles a day and we're going to spend hundreds of thousands of dollars to make it a four-lane divided roadway.

In the process, we find that there are 2 dozen Florida panthers in that area that are on the endangered species list and so now the State insists that we authorize the construction of some 40 panther bridges so the panthers can go under the road instead of over the road, when nobody knows if they will do so, but as one of the environmentalists says, if we are going to err, we must err on the side of the panther, but at a cost to the taxpayers of some $35 to $38 million.

Beyond that, they want to deny us the right to provide alternate access for the 5,000 property owners but instead to buy out those property access rights at a cost of about several hundred million dollars because it comes 90 percent out of the Federal Trust Fund.

I think that we must relook at our federal aid to highway programs, our interstate program and no longer regard an interstate project as an entitlement simply because of its designation.

We look at the Westway Project. We spent $3 million counting rockfish last winter and $2 million in legal fees because the Sierra Club says if you reclaim that 4 miles of abandoned silted-in waterfront docks, you will destroy the wintering habitat of the rock-fish.

The fact is that even those who oppose the project acknowledge that they are not concerned about the rock fish, their primary concern is killing the project. Isn't that an abuse of law?It has added millions of dollars worth of costs when we have billions of dollars of deficiencies on this highway system.

We look at billboards. We spent $230 million buying billboards along the primaries and interstates of this country. We have a billion dollar unfunded liability remaining. Is it prudent to try and put money to buying billboards because it offends someones aesthetic sensitivities instead of trying to straighten out bad geometrics in the highway that are concerned with life and limb? Yet the law is there and anyone who talks about it is considered to be an anti-environmentalist. I resent that label.

We look at Davis-Bacon which has added, according to FHWA calculations, a minimum of $287 million to the cost of the highway program last year and more realistically a half a billion dollars to the cost of this program and has not provided an additional dime for jobs but rather has reduced the number of jobs available.

We run into the ridiculous situation such as we now have up in Vermont. Going over to New York where two different jurisdictions are engaged in the construction of the same bridge and on one side of the river, in Vermont, the wage scale, as specified by law, runs something like $6 for unskilled labor and on the other side of the shore, the Federal Government mandates $16 an hour for the same type labor because the market has no real meaning in that determination.

Because of this law we're having to approve, out in California, on the Century Freeway, $20.60 an hour for unskilled labor on some of that housing project. And, my heavens, we're paying $25 an hour for someone to wave a flag at a construction site, a thousand dollars a week because it's 90 percent coming out of the Federal treasury.

I don't want people to work for slave labor, but I want to be a proper steward of these public funds and we cannot do so when we have laws that are designed to serve a few to the exclusion and detriment of the majority.

And, I don't say that we have to repeal the law, but certainly shouldn't we have it more equitable and more manageable.

The Disadvantaged Business Enterprise [DBE] Program, well-intended, I am sure, but I dare say that when that was put into the 1982 Act, there were not 5 percent of the Congress who realized that that had nothing to do with the employment of minorities, that it concerned only who owned 52 percent of the company or corporation that had the contract for that work. Now we have increased our participation with minority businesses by $800 million in the last 2 years and many members of Congress are complaining because of the abuses in the "front" organizations that are there. They do exist and we are desperately trying to correct the situation but we have a law that I think is not well focused and yet because it deals with race or with sex, no one in politics dares address that issue honestly lest you be accused of being a demagogue and a racist.

Quite frankly the abuses have nothing to do with color. If we had a program set up for blue eyed Swedes, we would have the same kind of abuses or for brown eyed Rotarians and yet everyone wants to couch that debate in terms of race and I think it's terrible.

We look at the Small Business Administration programs. Define for me the socially and economically disadvantaged individual as defined by the Small Business Administration. It's very difficult to do and yet we demand that our career people make that definition and then we abuse them for not coming up with the proper answer.

What is a small business as defined by the Federal Government. If the American people knew how we defined small business, they would be up in arms.

A small business, as a contractor, as a building contractor, a road contractor, a black top contractor not over $51 million worth of business in 3 years, is small business. As a consultant not over $22.5 million worth of business in 3 years. Why it's a crime.

In the service area, not over 500 employees is small business. Good Lord, the American people are shocked wherever I go in this country at what Government has done and yet we set up special programs that add such tremendous costs to this highway program.

And, now the Congress has said that we should set up a $5 million bonding program for minority contractors, $5 million out of our general operating funds.

Well, we did $1.243 billion worth of contracts with minority contractors last year. What am I to do with $5 million to set up a bonding program about which I know nothing. when, in fact, SBA left $10 million worth of bonding capacity untapped on the table last year.

I think the Congress is imposing a great burden here that contradicts all of our common efforts to really have a class operation here that is cost effective, that we can all be proud of.

I would hope to address some of these issues in the legislation that we come up with because I know you all are just as concerned as I about making this program truly work.

I think your activities, your work in its behalf, demonstrates that. I want to extend the hand of friendship and genuine desire to work with this committee because you have been superb in working with us, to see if we can't really come up with a program that will be a model for the rest of Government.

So, again, I want to thank you for the work you have done pointing out the challenges we have. The final comment is, the law provides that on July 1, I must notify the States of funds which will be apportioned to them on October 1.

I will be unable to do so until we have an ICE bill and we will be facing the same dilemma that we had in the year past unless we have an ICE by this year, the end of this fiscal year. So, our work is cut out for us.

Thank you very much for you patience in listening to my ramblings

Mr. ANDERSON. Thank you, Mr. Barnhart.

Before we proceed with the questions, we will have the statements by the other two Administrators, Mr. Stanley and then Ms. Steed.

Mr. STANLEY. I was going to thank Reverend Barnhart for the sermon and just say that I am very pleased that he decided to give his shorter statement rather than the longer one.

I do have a statement for the record.

Mr. ANDERSON. Your statement has been placed in the record.

Mr. STANLEY. I would try and make some brief opening remarks as a blue-eyed Pole.

I have been with the department for 4 years and I can say that, as I notice this morning, there may be a few questions on the transit budget.

As I have said in meetings with the membership of the committee, the budget decisions that were made in the past few months within the administration were difficult ones. I think when you approach the department's budget as a whole, which I have done for the last 4 years, it was clear that the decisions focused on those programs funded by general revenues.

I would say that this budget is not a budget that is antitransit so much as it is one that is anti-deficit. It is clear from this administration's standpoint, and again, I would agree with what the Secretary said very eloquently this morning, that the mandate in last year's election for the administration and for Congress alike, is to take a very hard look, first at those programs that we spend money on where we can make real and significant cut backs. In view of that, and approaching our department's budget as a whole and with the progress we have made with the superb leadership of this committee in transferring it to user fees, it is clear, from the outset, that any real reduction in transportation spending had to come from the general revenue side of that program. I think

UMTA, given the proportion of our funding that comes from general revenues, was vulnernable in that regard.

I also want to say, briefly, we have, over the past year taken a hard look, not just at how much money UMTA has provided public transit systems in the past, but how well that money has been utilized. One concern that I have as Administrator and I will continue to have, as we go through cooperatively, I hope, this budget debate this spring, is the amount of unliquidated balances of the Treasury Department from all aspects of the UMTA program and also the amount of unobligated funding.

Briefly, the unliquidated balance, again certified by Treasury, is on the order of about $8 billion. A significant amount of that money, about $400 million, is available for operating assistance.

In terms of unobligated balances, we have in excess of about $1 billion yet to be obligated. A lot of that comes in formula programs and I find it difficult listening to the testimony of some of the transit industry representatives who talk about imminent shut downs and cut backs in service and collapsing of systems, in view of the fact that $8 billion that has been appropriated and obligated by UMTA remains unliquidated at the Treasury Department.

I think, throughout this examination of what level of transit assistance the Federal Government can afford to provide in view of the deficits that we face collectively, that the question of how that funding is utilized and how those funds are put to use by transit systems deserves a great deal of attention.

And, I too join Mr. Barnhart in saying I look forward to working as cooperatively as we can with this committee as we have done in the past as we work through these problems together.

Mr. ANDERSON. Thank you, Mr. Stanley.

Ms. Steed, again the same thing, we do have your prepared statement and it will be made a matter of the record. It has been presented.

Ms. STEED. Thank you, Mr. Chairman, members of the committee.

I will have the formal statement entered, if I might, but just let me highlight a few of the things that the National Highway Traffic Safety Administration is doing.

Both Secretary Dole and I are very pleased and proud and excited about where we are in traffic safety today.

The fatality rate is at an all time low and we think that is for a variety of reasons. These include the tremendous movement against the drunk drivers in this country at the grass roots level, all across the country, the improvements that have been made in vehicles, and the increase in the safety belt usage and child safety seat usage across the country. We have made a great deal of progress. At the same time we realize how far we have to go so we are dedicated to doing all we can to improve highway safety. I might add that the committee and various members of the committee have done a great deal to give us the tools that we need to accomplish this job.

Very briefly, in the drunk driving area, we are seeing a decline in fatalities and serious injuries. One indicator of that is the blood alcohol concentration of fatally injured drivers.

Back in 1980, we saw that about 50 percent of fatally injured drivers had a blood alcohol concentration above .10 which is the level of intoxication.

Today that has dropped to about 45 percent and that is a very dramatic reduction attributable mostly to the tremendous efforts of people all across this country to get the drunk driver off the road.

In the 408 Grant Program, which Chairman Howard was instrumental in, we have made great strides and the States have made great strides. We are extremely pleased with the kinds of reductions that we're seeing in those States that have qualified for the 408 Grant Program.

In the 21 drinking age area, we too have made progress. At least three States—Massachusetts, Vermont and Georgia have raised their drinking age to 21. That brings us to a total of 26 States that now have 21 as the legal minimum drinking age. We indeed believe that we will see other States added to the list.

Perhaps the most exciting area of all is the area of safety belt usage and safety belt use laws. I would make a correction to my formal statement. On page 5, where we say that "we're pleased to report that New Jersey, Illinois, Michigan have joined New York with safety belt laws." I want to add two more to that. The States of Missouri and New Mexico that now have State safety belt use laws to protect their citizens. In all, some 30 States that are now considering safety belt usage legislation and we see this as a tremendous potential breakthrough in highway safety in the coming years.

I would assure you that we have not at all forgotten child safety seat usage. All 50 States plus the District of Columbia now have child safety seat laws. We are very pleased with that. We're seeing great increases in child safety seat usage. We are very concerned about what we are seeing with misuse. We can talk about that a little bit later but we are dedicating a good deal of our attention, and I am sure a good deal of the 8 percent funds that the committee gave us last year, to the problem of child safety seat misuse.

Finally, I would like to highlight the Section 209 Program. I would agree with you, Mr. Shuster, that the potential dividends for safety that this program can give us are an extremely exciting. We have just gotten under way and we are going to be working very hard to pursue that program and to keep you informed as we go along.

Again, I think we have a very bright future. It's going to take a lot of hard work but the Secretary and I are very dedicated to improving highway safety.

Mr. ANDERSON. Thank you, Ms. Steed. Now, we will proceed with our questions for Mr. Barnhart. Mr. Barnhart, first, I want to thank you for your statement.

It's not often that I have the occasion to do this, but I want to commend you and your deputies for the personal cooperation always extended to this subcommittee and the responsiveness of your fine staff to the subcommittee's every request for information.

Our staff informs me that your staff always bends over backwards to satisfy our most routine requests so I want to tell you that I personally appreciate your assistance and the assistance of your able organization.

Mr. Barnhart, my first question is, is it still the goal of this administration to complete the presently designated interstate highway system by the early 1990's?

Mr. BARNHART. Yes, sir. We do plan to do that. We may have a modification in our legislation which we are working on now that might affect some sections of the interstate. There will be funding that will be available for all of them and we're still in the development stage. The system is 96 percent complete now, so, we're talking about a very small percentage of roadway.

Some of these are under attack and may never come to fruition so I don't want to mislead. I don't think that we are going to be arbitrary and capricious in what we do, but some of them perhaps may not survive, simply because of other challenges to them.

Les, would you say that would be a fair statement?

Mr. LAMM. Yes, sir. I think we could summarize by saying nothing in the President's budget would modify our intention and ability to complete the interstate system by the funds that are made available in fiscal year 1990.

Mr. ANDERSON. Do you see any way of achieving this goal other than by continuing to apportion interstate construction funds on the basis of the cost to complete the system in each State?

Mr. BARNHART. Well, that gives me a little heartburn, Congressman.

Mr. ANDERSON. That is why I'm asking the question.

Mr. BARNHART. With some of the excesses that I have already enumerated, I think we have to look closely at some of these existing facilities or those planned facilities because it seems to me some of them are gold plated simply because of the 90 to 92 percent funding on them and I think we need the facility. We have so many needs out there and I think we ought to truly address the transportation needs but not "rip-off" the trust fund to provide other enhancements that may be desirable but seem to be inappropriate to be funded out of a transportation derived tax.

Mr. ANDERSON. Then we're talking about the already designated and accepted interstate system.

Mr. BARNHART. Yes, sir.

Mr. ANDERSON. What level of funding will be needed to finish this job in the early 1990's?

Mr. BARNHART. Well, sir, we have enough funding presently scheduled to complete that system, as planned by 1990. It would all be under construction at that time and we will have the funds to complete the system under the present plan; we are trying to develop another modification to the approach, but it will not delay completion of the interstate.

I am saying that we have enough funds without increased taxes to complete the interstate as it is presently defined.

Mr. ANDERSON. My next is a good Texas question. Does the administration support continuation of the 85 percent minimum apportionment program?

Mr. BARNHART. Oh, absolutely. I think that is only equity.

Mr. ANDERSON. Did you want to add to that?

Mr. BARNHART. Well, that is Federal view. I don't know if it has been cleared all the way through.

Mr. ANDERSON. Now, I am sure that you have——

Mr. **Barnhart**. I do think, Congressman, that we really ought to look at that 85 percent as I think most Members of the Congress have perceived it to be and that is 85 percent of its contribution, that is dollar in and dollar out.

And, as you know, there has been some manipulation of those figures so I am not sure that is all actually reflected in that sense, but I think that is how it should be.

Mr. **Anderson**. I am sure that you heard my question to the Secretary about the impact of annual obligation ceilings that are set below authorized levels. How will States, with large unobligated balances ever be able to reduce their substantial backlogs so long as obligation ceilings are set at or below the authorized levels? I seem to get the impression they will always be behind.

Mr. **Lamm**. Because of the fact that we didn't have all of the interstate funds that were authorized last fiscal year, Mr. Chairman, the States were able to bring down their unobligated balances in non-interstate funds considerably.

Mr. **Anderson**. Why is that so?

Mr. **Lamm**. Because we were not there with all of the interstate apportionment last year.

Mr. **Anderson**. Why is that so?

Mr. **Lamm**. Because of the inability to pass an ICE in 1984.

Mr. **Anderson**. In other words the ICE had some benefit, is that what you are telling me?

Mr. **Lamm**. Believe it or not, it did, yes, sir.

We worked the total unobligated balances nationwide, all programs down to $3.3 billion which is the lowest it's been in about 15 years.

Mr. **Barnhart**. That doesn't mean you have got to do it again though.

Mr. **Anderson**. But I heard you say a minute ago that you wanted us to pass another ICE already. Now, what he wants is for us to undo what you say we just did.

Mr. **Lamm**. I would certainly have to have myself on record as not wanting what you're suggesting, Mr. Chairman.

Mr. **Anderson**. Along that same line, I would like to read a paragraph from the committee's report accompanying H.R. 1251. That is the 18 month ICE bill which was reported by this committee on February 27, 1985, and was passed by the House the next day, on February 28, 1985. It was passed by the Senate on March 5, 1985 and signed by the President on March 13, 1985.

The actual language states:

> The committee is concerned that the Department has distributed obligational authority among the states on August the 1st, that would otherwise lapse in contravention with the manner stipulated in the Surface Transportation Assistance Act of 1982.
>
> It should be apparent that Congress intended, and the Committee intends, that such obligational authority should be distributed giving equal priority to the States, unobligated balances of funds apportioned under Section 104 of Title 23 United States code, on one hand and those States which, because of statutory changes made by the Act in the Federal-Aid Highway Act of 1981, have experienced substantial proportional reductions in their apportionments and allocations, on the other hand, the Committee believes that the August 1 redistribution should be a vibrant mechanism for helping States draw down on the unobligated apportionments, and that this is at least as important as addressing reductions in apportionments that have

occurred in legislation as a result of efforts aiming to more equitably distribute Federal Aid funds.

Now, my question on that is: what is your agency doing to comply with that provision?

Mr. LAMM. Well certainly there is no reason to contest the meaning of the words there, however, if you go back and look at the actual provisions in the STAA, there were 3 items mentioned, one of which was unobligated balances and 2 items then which dealt with reductions in apportionment caused by previous legislative enactments.

So what we have been doing up until now, has been to treat each of those 3 facts are with equal weight and what you are suggesting here in this paragraph would be to give roughly equal weight to the first factor and then combine the other 2 factors in another 50 percent weighting factor, I guess we would have to have our attorneys have a look at that and see whether or not that would cause us to do something different in August 1 of this year.

As you know, we will have another redistribution August 1, 1985 and we anticipate that there will be a sizeable amount of obligational authority available for redistribution.

Mr. ANDERSON. We would like to have you take a look at that. The way you explained the later part is, I believe the way we understood it. It is in the law exactly that way.

Mr. LAMM. I think we have the situation where the 1982 language could be interpreted differently by attorneys reading the same words, I will certainly have our staff work with your staff between between now and August 1.

Mr. ANDERSON. Secretary Dole reiterated her commitment to completion of the interstate system, as did you. Now, how will a freeze on obligational authority impact interstate construction?

Mr. LAMM. It would be a very small freeze, Mr. Chairman. If you look at a $14 billion program and it's reduced by a couple of hundred million dollars, the impact of that gets lost in the August redistribution of obligation authorities. It isn't really that much of a national impact.

In most cases, States have historically given more preference to interstate completion than they have many other categories of Federal funds and I feel certain that now with the availability of 18 months cost estimate approval this past week, we will see interstate obligations increasing again.

I might note, for the committee, that in the first 3 work days after the President signed the ICE legislation, the States, collectively obligated roughly a $100 million per day, per working day, in new obligations out of that, the new funding.

Mr. ANDERSON. Given our national commitment to complete the interstate, might it not be logical to take the interstate construction program out from the obligational ceiling?

Mr. LAMM. I think what we have done is an alternative. Again, what the committees have done with our discussion previousy is to reduce the period of availability of interstate funds. States have to use the interstate funds within a 2 fiscal calendar year period or the money lapses and is redistributed to other States that can use it more rapidly and I think that factor by itself gives enough weight to the States that they would give higher priority to interstate projects than they do the other funds which are available for a 4 year period.

Mr. **Anderson**. I am just thinking of my own, where I know the unobligated is always held over our head and we can't do it because we're held back everytime.

Mr. **Lamm**. In California's case, Mr. Chairman, your progress on the interstate category was also handicapped by problems involved in getting a couple of the larger projects moving, but I have noted that you're moving very rapidly in California on the Century Freeway now. In fact one of the first projects that was authorized after the new ICE bill was passed last week was another Century Freeway project in California.

Mr. **Anderson**. We're going to have Mr. Barnhart out there to dedicate something. We think that might speed it up a little too.

I have more questions, but I will yield at this time to Mr. Shuster and then I will come back to mine later.

Mr. **Shuster**. Thank you very much, Mr. Chairman. We certainly appreciate all of your testimony.

I have certainly noted, with great interest, Mr. Barnhart, your litany of waste and I trust you will send to the Congress specific legislative proposals to come to grips with this.

Mr. **Barnhart**. I sure hope so.

Mr. **Shuster**. And I hope that you will have the strong support of the President so he can, just as he has been so effective this past week over in the other body, if we have active administrative support perhaps we can save hundreds of millions of dollars in the future.

So, I will look forward to those kind of vigorous well supported proposals coming to the Congress. I would expect a very bloody and interested battle if that were to occur.

With regard to saving dollars, some of the legislation that I have authored in years past continues to be of great interest to me with regard to its effectiveness, most particularly the accelerated construction project which I authored in 1976 that provided for speeding up construction and saving money. As you well know, the pilot project on that, very substantially reduced from 10 years to 4.4 years the amount of time to build a highway and reduce the cost from something over $40 million down to $25 million, a very substantial saving.

Subsequently you took those procedures that were worked out on that pilot project and applied them nationally where applicable. I think a year or two ago when you testified there were something like 27 projects under way around the country with potential savings of several hundred million dollars. I would be interested in your updating for me what the status is of the accelerated construction projects today. How many highway projects are being built using that approach and how many dollars are we saving?

Mr. **Lamm**. Mr. Shuster, I have a report as of the end of January, 1985 and at that time there has been a considerable amount of increased use of the FAST provisions during the last calendar year.

As of the end of January, there are a 119 different projects under way around the country in 31 States with a total cost estimate in all of those projects of $3.5 billion.

Until the projects are done, we don't know exactly what the total savings were, but if it is pattern after the Everett By-Pass, we're certain that it's going to be considerable.

I brought along an extra copy of this report and I would be glad to leave it with your staff.

Mr. ANDERSON. Please do. Is it reasonable to expect that 10 or 20 or 30 percent savings?

Mr. LAMM. In the case of the Everett By-Pass project in Pennsylvania, it was even higher than that, but that had a lot to do with the availability of 100 percent Federal funds at a time when the State of Pennsylvania had no matching money.

I would say 20 percent is probably a reasonable estimate.

Mr. SHUSTER. Thank you. Staff, if you would pick that up for me now, I would appreciate that.

The other project which I authored a few years ago is the Hi Tech Project which is just now under way and as we stated at the time, our objective is to find ways to use state of the art techniques to build highways, using life cycle crosing in order to produce savings in the construction of highways. If we can learn something from that pilot project we can then apply it nationally just as we have done with the accelerated construction techniques.

Do you have any comment at this time as to your preliminary findings with regard to the Hi Tech pilot project?

Mr. LAMM. Yes, sir. In effect, we are patterning other projects on the experience we had in the Everett By-Pass project. Here we are just barely 2 years after the legislation was signed into law by the President and we already have the first major construction project under way on that. It's the bridge construction project on the Freedom Bridge and we would expect that the roadway portions of the work are at the final design and right-of-way acquisition stage right now and much of that construction should be under way by this time next year.

Some of the state-of-the-art items which were being considered for inclusion in the roadway projects include pre-stressed concrete pavement, many classes of improved safety features, such as the highest example of state-of-the-art guard rail and bridge rail and so forth, and improved geometrics on the highway and light weight concrete bridge decks. I think we are progressing very nicely on that project as well.

Mr. SHUSTER. And I realize it's early to ask this question, but do you have any preliminary feel as to what the impact of that will be? Are we talking in terms of reduced cost, reduced life cycle cost construction, are we talking in terms of a safer highway and how much?

Mr. LAMM. I would say we're certainly talking in terms of safer highways, particularly when you look at the improved guard rails and everything. In many cases, we do have a heavier initial outlay of funds to put in the newer designed guard rail, so we do have to be able to estimate a tremendous safety increase to off-set the higher initial costs.

Mr. SHUSTER. But those higher initial costs are being done on a life cycle cost basis?

Mr. LAMM. Yes, they are, sir. We do have a report under preparation. We'll get a progress report to the committee this year, but I would say the final estimate of savings would have to wait until after the full project is completed.

Mr. SHUSTER. Thank you very much.

Mr. ANDERSON. Any questions of Mr. Barnhart, Mr. Atkins?

Mr. ATKINS. Thank you, Mr. Chairman.

Mr. Barnhart, I would like to focus for a moment, if I can, and just try to get some clarity in my mind on the interstate projects in Boston, the so called Third Harbor Tunnel and the depression of the central artery there.

Could you tell me, in the 1985 ICE submission of the Department of Transportation, central artery project funding in Boston, you claim in that submission that that will cost $92 million to complete, is that correct?

Mr. BARNHART. Let me say, just to make it clear, we do not have depression of the central artery in the ICE bill.

The clean bill that was passed of course, was neutral on the eligibility.

Mr. ATKINS. Does the central artery project, excuse me for using that word, does the central artery project, have a cost in the 1985 ICE submission of $92 million for completion.

Mr. LAMM. Mr. Atkins, if you would like, we can work with your staff on a table of numbers. What we have here is the original submittal by the Commonwealth of Massachusetts early in 1985 and then we can discuss with you the modifications that we made in FHWA before we transmitted the cost estimate to the Congress.

Mr. ATKINS. But your estimate is $92 million, is that correct?

Mr. LAMM. Yes, sir, $92.4 million.

Mr. ATKINS. Those funds are for redecking the artery?

Mr. LAMM. Yes, sir.

Mr. ATKINS. Now, in the 1981 ICE, there was $389 million for the Central Artery project?

Mr. BARNHART. Something like that.

Mr. LAMM. As I recall, Mr. Atkins, I don't have the number from the 1981 cost estimate here, but as I recall, the 1981 cost estimate dealt with projects not only in the portion of the central artery which would be depressed, but also the major interchanges at the north end at City Square, in the Charlestown area, and at the South end near the South Station and——

Mr. ATKINS. Charlestown was a separate funding.

Mr. LAMM. Yes, sir. I am just saying that when I see the figure of $389 million, I think, as I say, I don't have our own work sheets with me here from 1981, but I think that that applies to more than just the depressed portion—the portion of the central artery to be depressed.

Mr. ATKINS. So your position then is that $389 million was to do what?

Mr. LAMM. Again, I don't have the 1981 numbers with me. I would like to have our staff to compare those numbers, but my recollection is that the $389 million included more than just the portion that would be depressed by the Commonwealth.

Mr. ATKINS. How about the $427 million figure that comes out of the most recent ICE?

Mr. LAMM. That number, as I recollect, that was an adjustment that was made by the staff of this committee to update the 1981 figure from Massachusetts, update for the inflationary cost impact during the 3 years.

Mr. ATKINS. So how did we go from a submission in 1981 of $389 million in 1981 down to your estimate in 1985 of $92 million. I would congratulate you if that were cost savings, but I think that would be unprecedented in the history of transit projects.

Mr. BARNHART. Part of it is the definition of what is included and that is the problem. We are not on the same track as to what has been included under which cost estimate, and that is why it is very awkward to talk about figures that we don't have before us.

Our position simply has been that we have not had any funding in for the depression of the artery, but we have had the funds in the estimate for the redecking and for the interchange work on the north and south ends and that is really what it boils down to.

Mr. ATKINS. But the interchange work, the end was an amount of, I believe $212 million which was approved separately, that's already been approved and that's about to go to construction, so that couldn't have been included in the figure. I would assume that it wouldn't have been included in the figure that you submitted.

Mr. BARNHART. We'll have to supply you a break-down of that.

Mr. LAMM. It's still in the cost estimate though, Mr. Atkins, because until the work is actually carried out, we still have to report it to Congress as a potential cost requirement for the remaining part of the interstate system.

So even though the northern portion is under design right now, I don't believe very much of it has gone to construction. I think we would still have carried it as a cost to complete on the 1985 cost estimate.

Mr. ATKINS. But you have it listed out as a separate project, the so-called Charlestown project.

Mr. LAMM. Yes. Our submittal to Congress doesn't break it out that way because we have a single number for the entire Commonwealth of Massachusetts, but what we have at FHWA headquarters is a series of worksheets that takes each interstate route and breaks them down by milepost control sections and there you come in to context with what I have been saying, that the numbers that we have deal with portions of the full I-93 route.

Mr. BARNHART. In that same way we have another figure in there for the third harbor crossing, but we will be happy to work with you on it and clarify those figures.

Mr. ATKINS. Thank you. Let me pursue this, if I can, just for one additional moment on the issue of the third harbor crossing. Your position is, as I understand it, that the appropriate crossing there is a two-lane crossing, is that right?

Mr. BARNHART. No, sir. From the EIS we have approved the four lane, but have pointed out that by law, the funding is restricted to two lanes because of the special legislation back in, what was it, 1974, 1973, that got the exception to the interstate standards which provided for a two-lane tunnel. Therefore, we have no recourse but simply to abide by the law, but we do believe that the four lane is justified.

Mr. ATKINS. Is justified and cost effective?

Mr. BARNHART. That has been our positon.

Mr. ATKINS. Thank you very much.

Mr. **Barnhart**. Have we stated it that bluntly? I think not, but the bottom line is that's where we are really coming up.

Mr. **Anderson**. With regard to your earlier comment on the interstate system completion, were you saying that additional legislation will be needed to pare back further on the cost to complete the interstate system or that existing law is adequate to eliminate the so-called gold plating of certain projects that you referred to?

Mr. **Barnhart**. That's kind of a complicated answer and I'm not sure I can give you one that isn't full of a bunch of hot air.

Mr. **Anderson**. I was not sure whether you felt that now that the law was clear, that we could proceed.

Mr. **Barnhart**. Oh no, no, the law is clear, perfectly clear on that.

Mr. **Anderson**. Or do we need to have more legislation to redefine what you consider goldplating.

Mr. **Barnhart**. No, I think the law clearly makes eligible all of those elements of completion as we have interpreted it. I don't think that we need additional legislation there. I do think that our procedures are cumbersome and impose additional cost burdens unnecessarily. We could clean up our act and get more cost efficiency without some duplication, but, I think we need some revision in law.

Mr. **Anderson**. You mentioned 30 or 40 panther crossings or something, it seems to me that you either need legislation to clarify some of this or you don't. I'm not sure what you are telling us.

Mr. **Barnhart**. I'm simply saying that I think that we operate under laws that were well intentioned, certainly, served a useful purpose, but perhaps have gone beyond what we have done in the past in trying to protect individual rights to the point where those laws are now being used by hands full of people to impose additional burdens on the program and to thwart the development of some of these projects. It may be that we ought to reexamine some of those laws.

As far as the panther crossings, I am going down to Florida, I think next week, and meet with the Governor. I hope we can come up with a resolution, but I don't think that we should simply approve something as a part of an interstate project because someone in the State says this should be in the cost to complete that project.

Mr. **Anderson**. In other words, you think you can do it almost as good as the States?

Mr. **Barnhart**. I think we have some latitude. Beg pardon.

Mr. **Anderson**. Now, Mr. Barnhart, your budget proposes the elimination of the parkways and the Park Highways Program.

Mr. **Barnhart**. Yes, sir.

Mr. **Anderson**. Could you please elaborate on that proposal? If you recall, the Parkway Program was authorized in the Surface Transportation Assistance Act at the administration's request.

Mr. **Barhart**. Yes, sir.

Mr. **Anderson**. Why is it now marked for extinction?

Mr. **Barnhart**. May I respectfully ask that you ask OMB. It was not an initiative by Federal Highway Administration.

Mr. **Anderson**. Which was asked by OMB, the Park Program or the extinction of it?

Mr. **Barnhart**. The deletion of the Park Program.

Now, let me say one other thing. Poor old Dave Stockman has really been abused. I feel for him because he's got a tough job and nobody loves him except the taxpayers out west of the Potomac. I love him and I sympathize with him. We want to cooperate with him, so I am not just trying to shift the burden over there but certainly that call was outside the Federal Highway Administration. That's all I'm saying.

Mr. ANDERSON. Well, it's also rather of hard for us to be asked by the administration to add something and then when we do it, to have them delete it. It makes us look pretty funny too.

Mr. BARNHART. Well, the sign of an intelligent person is one who, when given new facts, can adjust a prior position.

Mr. ANDERSON. Mr. Barnhart, it was my impression that the needs for new construction, rehabilitation of parkways, were substantially greater than the $100 million per year being provided by the Surface Transportation Assistance Act. Was my impression correct?

Mr. LAMM. Yes, sir. We so testified at the time of the 1982 STAA legislation.

The supporting documents which came up in the Interior Department portion of the President's budget for 1986 on this point, indicate that there could be other funding sources for parkway projects that still remain to be accomplished. It's something that, personally, in FHWA we haven't had a chance to look at so I can't give you an evaluation of that.

Mr. ANDERSON. Have you encountered any special problems in implementing the Parkways Program?

Mr. LAMM. No, sir, we have been able to fully utilize the obligational authority that has been provided each year.

Mr. ANDERSON. Does the administration have a position on current tax exemptions that reduce highway trust fund revenues and when can we expect to see legislation perhaps eliminating some of these exemptions?

Mr. BARNHART. I think even throughout the debate on the 1982 act, the administration took a very solid position in opposition to those exemptions, for the most part and most recently when the additional exemption on gasohol was granted, the administration took a strong position in opposition to it.

Here again, I think we find a perception around the country that this exemption on gasohol is the end-all for the farming community. I am not sure that is, in fact, true. We would advocate its abolishment. Those vehicles use up the roadway just like if they were run by diesel or gasoline. It has been a tremendous burden and an unfair subsidy to a particular industry to exempt them. It has dipped into the trust fund about $1½ billion over the life of the 1982 act and I think our position has been that if the Congress deems the production of that fuel in the national interest, they should appropriate a subsidy for it off the top where everyone can see it and not grant exemptions in an indirect and hidden way.

Mr. ANDERSON. You were railroad commissioner, I believe, in that region we refer to as east Los Angeles.

Mr. BARNHART. You're going to ruin my image. I was highway commissioner.

Mr. ANDERSON. I know, but I said railroad commissioner.

In that region we refer to as east California, some call it Texas, I believe. I am only doing that because everytime I go to Texas and I am introduced by one of my colleagues there, they introduce me as Mr. Anderson who comes from a county in west Texas called California. So I want to reverse it a little bit.

Mr. ANDREWS. But it was a county in west Texas.

Mr. ANDERSON. There you are. He already knew. I didn't even have to tell him.

Anyway, if I understand it, you know a little bit about State politics and your job involved helping program highway moneys in that State.

Now, on the State level, were those decisions ever made by political considerations? Perhaps, for instance, an assemblyman or a State senator, knowing the needs of his State and his constituents, thought that a particular project was of some particular importance.

Mr. BARNHART. Well, certainly. We don't operate in a vacuum, politics plays a role in it, just as it does up here and to deny that would be naive. I don't say that it's the most desirable, with all respect to this committee.

Mr. ANDERSON. Would you think then that that State assemblyman or State senator would know more about the needs of his district or his State better than I do in mine or Bud Shuster does in his?

Mr. BARNHART. Well, now do you think I'm going to walk into that question?

Mr. ANDERSON. Then I wonder why is it so bad when Bud and I have input into the use of Federal highway funds in our States through the authorization of a special project. Why is that so bad when it is considered so much better to turn it over and let the States do it?

Mr. BARNHART. I understand where you're coming from but I must, perhaps offend you. I really think that the strength of the highway program has been that it has developed from the States and not from Washington, DC.

And, in spite of politics entering into some roadway determinations and certainly that is reality in States, I think it is better to fight that battle out within that State than from the remote place of Washington, DC. In the broader sense of it, when we look at all the demo projects we have had, we find that many of them really were warping State programs just really tearing them up.

In the same way, Mr. Anderson, you know, in our discretionary funds here, where we have had discretionary funds, we have tried to establish criteria and not simply rely on politics and whether we like someone or not in order to determine the eligibility of bridges for discretionary funds. We do an analysis and we have an up front, out front rating so that everyone knows what is being funded through the discretionary program; simply to use clout warps that whole process.

Mr. ANDERSON. I wish I had known you better when you were highway commissioner.

Mr. BARNHART. Before I got converted.

Mr. ANDERSON. Before you got back here.

One of the primary reasons that our highway system program is based on contract authority is that it works well. It requires stability and a predictability that comes with contract authority. Don't you generally agree with that?

Mr. **Barnhart**. I would think so. I guess that's why I—well, I'll leave it at that, yes, absolutely.

Mr. **Anderson**. Don't you think that the annual imposition of obligational ceilings detracts from that predictability?

Mr. **Barnhart**. Oh, it does, but I do think it's not the major influence. Les, what's your observation on that?

Mr. **Lamm**. If the obligation ceiling is enacted at the same time as the authorization, it doesn't, Mr. Chairman, because the States still have the same advanced planning on the obligation ceiling as they had on the apportionment.

Mr. **Anderson**. But it doesn't happen that way. How can States program funding when they may not know what they will have available to obligate a year or two down the road?

Mr. **Lamm**. In theory it works that way because when the STAA was enacted, this committee put in 4 years worth of legislation and 4 years worth of authorizations and also 4 years worth of obligation ceilings.

However, some of the authorizations didn't get there because we had problems with the ICE and some of the obligation ceilings have changed because now in the third year of the program——

Mr. **Anderson**. All of them have, I think, haven't they?

Mr. **Lamm**. No. Last year we appeared before this committee and we gave you the exact same number you had in STAA as I recall. We had no arguments at all with the committee last year.

Mr. **Anderson**. When obligational ceilings are reduced and budget authority is maintained, we're not really cutting spending, are we, we're just postponing it?

Mr. **Lamm**. We are deferring it for other than program reasons, yes sir.

Mr. **Anderson**. What happens when needed highway expenditures are delayed then? As the highway deteriorates, doesn't it eventually cost more money to repair it and escalates the whole cost?

Mr. **Barnhart**. Certainly, and that was one of the crowning achievements of this committee in finally providing means to protect the investment we had.

Mr. **Anderson**. So what really happens when we delay spending on our highways? Aren't we just driving up the eventual price tag and thus increasing the obligational ceilings costs?

Mr. **Barnhart**. In fact, that is correct, but fortunately, under this administration, the rate of inflation has been greatly reduced so it doesn't dip in that much.

Mr. **Anderson**. This is my last question. Ray, from the perspective solely of a healthy trust fund, what do you think is a secure cash balance that we must maintain?

Mr. **Barnhart**. Well, we have said, between $2 billion and $3 billion. We do recognize that there is in excess of that today.

Mr. **Lamm**. The Congressional Budget Office, by the way, Mr. Chairman, submitted a report to the committee which said that roughly $2 billion to $3 billion would be a good minimum balance and at the time we generally agreed with that.

The balance today in the highway trust fund, as a whole, is roughly $11.9 billion and in the highway account, by itself, roughly, $10.8 billion.

Mr. ANDERSON. Any other questions of Mr. Barnhart?

If not, thank you, Mr. Barnhart and Mr. Lamm for your presentation.

The next series of questions will be directed to Mr. Stanley.

Mr. Stanley, the Secretary indicated that it would cost $4.6 billion to complete all the new starts that receive earmarking in the continuing resolution.

I realize that may sound like quite a bit of money, but let me relate it to H.R. 5504. The funding level that we had for new starts in that legislation, which was a perfectly responsible bill, only spent what we take in. We could build all those projects at the $4.6 billion price tag in 8 years. Now that is not an unreasonable amount of time. Isn't my arithmatic right on that, Ralph?

Mr. STANLEY. I think that you went on the presumption that the increased authorization level in H.R. 5504 would have been enacted and we would still had the split whereby new starts were 40 percent of what was available.

I still would submit that the cost of those 12 projects, in and of themselves, would have been more than the funds made available in H.R. 5504.

The reason that we came up with the $4 billion number is that took into account a survey that we had done by Peat, Marwick which took into account some delays. I would also like to point out that, we assumed that the costs of those projects, as outlined, as submitted to us, wouldn't go up higher than the inflation rate. On each of the new start projects we have been involved with over the years, we have found, to our dismay, that those cost estimates are not accurate and again, the projects on H.R. 5504, I would say that we still would have a funding short fall.

And third, there is no assurance, in the way the new start programs——

Mr. ANDERSON. I don't see how we would have had a funding short fall. I thought we worked it out so it came out in 8 years.

Mr. STANLEY. I would be glad to take a look at the projected funding levels, depending on what the allocation would have been for new starts. I would submit that given the projects, as outlined in the 12 that we had before us, based on the earmarks of the appropriations committees, that we would have been short within that trust fund.

Mr. ANDERSON. Ralph, can you outline for us the transit provisions of Public Law 97-424, the Surface Transportation Assistance Act of 1982?

Mr. STANLEY. The provisions of the act?

Mr. ANDERSON. Yes. The provisions and tell us what—my next follow up would be, how this year's budget request would change these programs. So kind of think of that question as coming.

Mr. STANLEY. Our budget request, this year, incorporates proposals for fundamental changes in the legislation.

We would take the section 9 program and make it fund capital purposes only, using the 9(A) formula that was adopted on a temporary basis in 1983. We would eliminate the eligibility of operating assistance. The program would also, with regard to the Federal share for the capital projects that we would fund, change that Federal share from 20 and 25 percent, respectively, to 30 percent for every capital project. The 1986 authorization for research and training would be deleted. We would have new authorization for administrative expenses and as the Secretary indicated this morning, it would not affect the 16(b)(2) funding but would take that off the top of the funding remaining in the new capital program.

Mr. Anderson. So the changes are pretty drastic. Do you think there are members of Congress who supported the Surface Transportation Assistance Act that might not have, had they known the administration would come along and attempt to so radically alter it?

Mr. Stanley. I think that the fundamental changes that we have in that legislation weren't anticipated by the administration in 1982.

As you know, Mr. Chairman, I was part of the group in the Secretary's Office that worked on that bill and in full support of that bill.

Mr. Anderson. We almost called it the Stanley bill.

Mr. Stanley. The Secretary, at the time, Secretary Lewis, nor any of us in the Secretary's Office, would have anticipated what I think has been a major and new effort to reduce Federal spending.

The Secretary said this morning, I doubt that anyone in the Cabinet could have assured any Member of Congress, at the time that the legislation was passed, that in developing an out year budget, for the second term of an administration that had not yet been reelected. that the authorization levels in that would remain stable. Based on my experience, from 1982 and early 1983, I think there are a number of members that would have, perhaps reconsidered that if that had been known at the time, but I would submit that there was no way that this administration could have said, here are the decisions we have made with regard to the fiscal year 1986 budget or that we expect to make.

Mr. Anderson. I'll back up a little on your surmise. I am convinced that the Surface Transportation Assistance Act would not have passed had we known that this was going to be the administration's position, had I known, I would have vigorously opposed the legislation myself. I think it is unfair to the big cities. It's unfair to the small towns. I think it cheats anybody who cares one whit about transit. I think there are a lot of us who are very disappointed about what has happened.

Now, Ralph, you were at DOT when the act was passed. Do you recall, at anytime, in any discussion anywhere, the possibility of coming along and wiping out operating assistance?

Mr. Stanley. During the first 4 years of the administration, we have repeatedly attempted and been unsuccessful in phasing out operating existence. We have reduced it some 16 percent over that time, but not to the extent that the administration wished to.

Mr. Anderson. But when the act itself was being passed, that wasn't in anybody's mind at that time, was it?

Mr. **Stanley**. The policy goal of the administration to eliminate operating assistance, either by phasing it out or reducing it over time, hasn't changed in any of the budgets.

We have submitted various schedules for achieving that goal but the policy goal of eliminating operating subsidies from the Federal Government, I think, has remained fairly consistent.

Mr. **Anderson**. Do you recall, at anytime, any discussions of eliminating all general funding for transit?

Mr. **Stanley**. That option was first discussed within the administration, to my knowledge, in the preparation of the 1986 budget.

I would say, Mr. Chairman, there is no question that this is a significant departure from the budgets that we have submitted to this committee in the past.

I would say, as I tried to outline in my opening statement and the Secretary commented so eloquently this morning, this was a budget decision first. Second, it was a decision within the Government to take a hard look at what we considered essential Federal functions, not just in transportation, but across the board and I would say in committee room after committee room, over the next several months, there are major changes in other programs, for instance in UDAG over at HUD, and in agricultural subsidies. Transportation was one of the departments that, in an effort to actually reduce Federal spending, was going to make a significant contribution to that.

Mr. **Anderson**. Those other departments aren't user tax funded like this one.

Mr. **Stanley**. Some of them are, but not to the degree that the Transportation Department is, but I would say that for as many services in which you can identify the beneficiaries as closely as you can in transportation.

The philosophy of adopting user fees is one that remains strong throughout the budget.

Mr. **Anderson**. Again, my same question I asked earlier, only this time applying to these last two things, do you think that Congress would have passed a Surface Transportation Assistance Act if we had known the aaministration would have been renegging on these commitments such as I mentioned, operating assistance and general funding and so on?

Mr. **Stanley**. I think that the needs on the highway side and the idea of getting dedicated capital fundings source for transit were both in and of themselves persuasive arguments then and are, to a degree, now. I think that legislation would have had a significant chance of passage, but I can't, in retrospect, predict whether it would have been defeated, based on out year budget considerations.

Mr. **Anderson**. One of the justifications that I have heard the Secretary use to cut AMTRAK subsidies, has been the rather high income of many AMTRAK riders. I believe that she has estimated that 55 percent of those in the Northeast corridor earn at least $30,000 a year.

Do you have any similar data on public transit uses?

Mr. **Stanley**. This budget, I hope, gives this committee and us at UMTA an opportunity to take a hard look, not just at measuring the program by how much money we spend in operating subsidies, but look exactly at what the Federal Government bought with the operating subsidies we have provided.

We had a study done that was concluded in 1983, that looked at the decade of 1970 to 1980, as to where Federal operating subsidies actually went.

You will find that 25 percent of it went to subsidize some lower fares and increase service; 18 percent of it was lost to losses in labor productivity and about 25 to 28 percent was lost to increases in wages and increases in labor costs above and beyond inflation and the rest went for higher energy prices.

I would also submit that in city after city, what we are finding, in terms of operating subsidies and I will use Washington as an example, is that the transit dependent lower income transit rider, in the inner city of Washington is probably subsidizing the wealthier middle class commuter rider.

The routes that you find in Anacostia, the bus routes on which the transit dependent rely, often times either pay for themselves or significantly give some kind of surplus.

Instead, a lot of the operating subsidy that we provide here for the kind of bus service that subsidizes higher income, middle- class commuters that come in from the suburbs to the city to work. That pattern repeats itself in a number of these cities. I would submit to this committee that it is time that the Federal Government took a hard look at by merely subsidizing that kind of service, what actually we're buying.

In a number of areas, about 100, as of the end of 1982, the local choice has been to go to what they call a user side subsidy. These are travel vouchers to go to the truly transit dependent rather than subsidizing major regional bus systems that are neither efficient, productive nor is there the trickle down impact of our subsidies to those riders.

Mr. ANDERSON. Let me give you some data that I have collected on this, whether they are high income or not.

Sixty percent of all public transit riders, nationwide, have incomes under $20,000. One third of them are under $10,000 and 40 percent of all transit patrons are from minority groups and 16 percent are over 65 years of age.

Now, if I may ask, Ralph, does this sound like a quiche and white wine set to you? It doesn't to me.

Mr. STANLEY. I would argue whatever subsidies are available to transit at the Federal, State or local level, we have done a very poor job in targeting those subsidies to the groups that you just mentioned, Mr. Chairman.

I cannot stand before this committee and say that on an investment last year on the order of $800 to $900 million in operating subsidies, with 85 percent of those riders in your larger urban areas in the Northeast, you're actually getting a dollar-for-dollar benefit to those transit users.

The Secretary's comments this morning about more efficient use of the private sector to run some of those commuter services are very valid. Most of the public transit agencies either resist or refuse to take a look at those kind of alternate services that could be provided from other than public transit.

Mr. ANDERSON. It seems to me like we're taking away the tool that helps the elderly, the handicapped and the low income to be self-sufficient. I think there is a Federal interest in this and I don't believe we're going to get the Congress to think much differently.

I am going to hold some of my questions and let Bud have his. So, Bud, you take over and I will finish mine later.

Mr. SHUSTER. Thank you very much, Mr. Chairman. We sure appreciate you being here today, Mr. Stanley.

First of all, let me pin you on this Metro question. I am intrigued, if I heard you correctly, that in your observation, there is a vast difference between the people in the inner city, their income levels and the people who are riding out in the suburbs and coming into the city.

Does that suggest then that we should have two different levels of subsidies, for example, with Washington Metro: one for the inner city, which is more highly subsidized because it is used by lower-income people and a lower subsidy out in the suburban areas because those people are more affluent. Is that what you're saying?

Mr. STANLEY. To the extent our goal is to target what subsidies are available to those who are transit dependent, that following up on Chairman Anderson's remarks, I think we can find better tools. What I mentioned earlier, in terms of the user side subsidy, is one of those kind of tools where what funds we have are made available as script or otherwise, to those transit dependent-people, mostly in inner-city areas that do depend on and have no choice but to use public transportation.

Mr. SHUSTER. Is serious consideration being given to transit stamps?

Mr. STANLEY. As I said, transit stamps or script or direct subsidy to those user, to the extent that we can demographically identify who they are. There are at least, as of 1982, 100 such programs and I would hope, given the message the administration is sending, on the level of transit subsidies that we feel that we can afford from the Federal Government, that those kinds of programs and successes are replicated in other areas.

Mr. SHUSTER. I can understand the logic of transit stamps but I cringe at the thought of going from food stamps to transit stamps. Why not clothes stamps, shoe stamps, whiskey stamps? Where will it end?

Well, so much for that. If we are going to tighten our belt nationally, the American people are going to want us to look very closely at Washington Metro and what kind of bang for the buck we're getting there.

I understand that the city of San Diego built a light rail project with little or no Federal assistance. I would appreciate it if you could tell this committee what the project cost was, how they financed it, how much a comparable project would have cost had UMTA funded it, and what the reasons for the difference might be.

Mr. STANLEY. The cost of the San Diego project, which was about 16 miles, was about $117 million. It's a light rail line. It was built exclusively with State and local funds.

The difficulty in coming up with comparable projects in the UMTA program are that a number of them involved significant tunneling as here in Washington. The same in the Buffalo project.

For comparative purposes, there is a very informative study done by people from the Kennedy School who took a look at the Portland light rail line. The cost of the Portland light rail line was about $2 to $3 million dollars more per mile than San Diego. I have read that study and the conclusion was that some of the associated constraints and uncertainties with Federal funding indicated that helped contribute to the savings experienced in San Diego.

Each of the projects, I will say, have unique circumstances. In San Diego, for instance, they had existing right-of-way so they didn't have to go out and make that kind of land acquisition. Portland has run into some problems with construction but San Diego did not experience those same problems. Again, I think there is a great deal to be learned from the experience of those two different cities as to which cost more.

I would also add, Portland is experiencing difficulty in paying for the operating cost of the light rail line. I think the people in San Diego have been able to recover 80 percent or so of their operating costs from the fare box, which is unpredecented.

Mr. Shuster. Why is that so?

Mr. Stanley. Because, I think, in San Diego, to try and keep with my impressions in having visited the area, there was ridership and dense ridership there before the local decision to build the line was made.

That case can't be made in Portland. I think that one of the incentives for the funding of the Portland project was, frankly, the availability of Federal funds to do that project.

They are experiencing ridership problems and the attendant operating cost delays that cities like Miami are experiencing and Detroit will experience in the near future.

Mr. Shuster. Thank you very much.

Thank you, Mr. Chairman.

Mr. Anderson. Mr. Andrews.

Mr. Andrews. Thank you, Mr. Chairman.

Mr. Stanley, I would like to go back over some of the responses that we heard earlier today from Secretary Dole and ask you if you could elaborate and please feel free to comment on some of her answers. Just in a general context, relative to Houston, I wonder if you would characterize Houston's approach, in your opinion, to transportation planning in general.

Mr. Stanley. I think Houston, and I would say this at the outset, I think the city of Houston and the people in Harris County learned the hard way how to approach transportation planning.

In the course of the first term of this adminstration, as you well know, there was a proposal for a major subway project which was defeated when the voters in the area decided not to issue the revenue bonds.

Houston, in my view, has uniquely taken a look at its regional transportation needs, not from a transit versus a highway perspective, but they have gotten together everyone responsible for road funding in that region and they have taken a hard look at the collective funding available for transportation. They have also chosen to tax themselves, not on a short-term basis to match an UMTA grant, but over a long-term basis, so there is a dedicated source of financing.

It was no coincidence that with that degree of local financial commitment from the Houston area——

Mr. **Shuster**. You're referring to 2 cent sales tax?

Mr. **Stanley**. Right. Which raises, I believe, about a $100 million a year and they established their own trust fund for whatever projects they were going to fund. That kind of stability of financing was what we looked for during the 2 years that this administration was in a so-called new start program.

I had hoped that other cities would replicate that kind of experience and that kind of dedication in terms of local funding.

Houston today has not yet chosen what long-term transit option they are going to pick. There are three that I think that they expect to take to the voters sometime this summer or fall to get the public participation in the choice, something that was also absent, I felt, from their earlier choice on a major subway project.

I will make it clear what the Secretary was saying this morning. We, in the 1986 fiscal year budget will no longer fund new start projects, any new start projects which includes any funding in 1986 for Houston.

In the course of ending our participation of the last 2 years in new start funding, we are looking at each of the earmarked projects on a case-by-case basis and asking some simple questions.

We went through this in 1981, when we stopped the People Mover Program that had been established in the prior 2 years.

On a case-by-case basis, we are asking questions such as, is the funding that was earmarked and supposedly available for the project, does that complete our obligation or does it start a new obligation which will remain unfunded.

Mr. **Shuster**. With regard to that particular question, how would you answer in terms of Houston specifically?

Mr. **Stanley**. Currently in Houston, the question we have before us is of the $35 million available, how they would propose to use that funding. It is now only being used in a bus way project and if that is adequate to complete the bus way project, we would give consideration to leaving that funding in place. Under no circumstances——

Mr. **Shuster**. Just for the bus way?

Mr. **Stanley**. Absolutely. Under no circumstances will any of the reprogramming of new start funding, from city, be used in any other new start city. It will be used for transit capital projects.

As I said, where we have a full funding contract in which the Federal Government has a contractural obligation to complete that which was begun, there are three cases that meet that category where we are making the earmarked money available, out of 1985 and it's 1985 alone we're talking about.

Mr. **Shuster**. Where are the three cases, in addition to Houston?

Mr. **Stanley**. The three cases that we have signed a full funding contract with are Portland, Detroit, and Santa Clara and the two we are looking at are Atlanta and Houston. We're looking at Seattle and we're looking at Los Angeles, as we go through a review of what is to be reprogrammed and what isn't.

Mr. **Shuster**. I notice that Los Angeles got added over the noon hour.

Mr. **Stanley**. We're looking at every other new start project. I will say this. At the Department, currently, we in UMTA have not submitted or discussed, to any degree, where we have a final conclusion, with either the Secretary's office or OMB, conclusions on our reprogramming request. That is something that we are in the process of doing.

Mr. **Shuster**. Let's go back for a second. Relative to reprogramming itself, what are the criteria? Some were mentioned earlier by Secretary Dole. I wonder if you would just enumerate them.

Mr. **Stanley**. They are fairly simple. If there is a full funding contract in which we have a contractual and legal obligation to complete the project, we will do so.

If, on other projects and there are 9 out of the 12, that we are looking at, the result of our proceeding with the funding as earmarked in the 1985 continuing resolution, obligates us to a project with the predicate that there will be no funding in 1986, we cannot complete nor can the locale complete, we will not do so. You know, again, it is difficult to come up with a set of criteria. Frankly what is going on, in terms of ending this program, I am being asked to rationalize the various projects for which there isn't any rationale on the funding with regard to new starts. That is a burden that is being put on the Department who had no discretion, no choice and no sway over how much money was allocated to each of those new projects, new start projects or which projects were chosen. It's going to take us several weeks to come up with final conclusions on that reprogramming.

Mr. **Shuster**. Secretary Dole mentioned minority business contribution this morning.

She mentioned, of course, cost effectiveness in the sense of local financing of operating costs. What other specific criteria is being utilized in the study?

Mr. **Stanley**. Well, to put it in perspective. At the point in time when this administration agreed to go ahead with new start funding, I felt, it was during my first few months as Administrator, we had to come up with a rational set of criteria so that cities such as Houston and other areas could know what was expected of them prior to requesting discretionary Federal funding.

The principles of those criteria and the formula that we developed were fairly simple.

One looked at whether or not there was a certain level of density in potential ridership. If there wasn't, they would fare poorly. If there was, they would fare well. Therefore, we would put the transportation dollars where there was a transportation benefit.

The second looked to the stability and extent of local financing. Where there was a great or dedicated local source of long term financing, the project would fare well.

We looked at the cost effectiveness and to put it simply, as we developed the criteria, it was that if you looked at dollar invested, from the Federal Government, what the basic ridership return was going to be. That kind of criteria and that kind of thinking is not uncommon to transportation planners.

It is uncommon in many cases to people who support some of these projects.

But, as a result of those criteria, Houston did well and Los Angeles did very well. Seattle did very well. There are several cities that did poorly. San Diego did poorly. Detroit did poorly, Miami did poorly. There wasn't the transportation benefit that would result from those Federal investments.

Those criteria, we were directed not to continue to develop them by the Appropriations Committee and we are now at a point in time where the administration is no longer going to fund those projects.

And I will be very honest. I went over to see David Stockman myself, as these budget developments occurred and we were discussing with OMB some of the extent of the cuts.

David Stockman asked me, and very rationally, if I could assure him that this year, being fiscal year 1986, we would get some concurrence, not to proceed with earmarking and the answer was that I attempted that last year and Mr. Stockman who has served in Congress as well, was very skeptical about cur ability to do so. That was a great disappointment to me because I felt that the program was justified and effective, but if you sit there, Congressman, in an effort to try and reduce an actual deficit. If there were no Federal deficit today, other than on the trust fund, and given our authorization ceilings, we projected, on those projects alone, an unfunded liability of between $3 and $4 1-2 billion, there would be a deficit in and of itself from the way the part of the trust fund account applicable to new starts was being developed.

In the face of that, it was illogical, it was impossible to make an argument that we could continue with the program.

Mr. **Shuster**. Well, then, let me ask you, let's assume that the message to cities like Houston and Los Angeles is a positive one in terms of 1985 dollars.

What should those two cities expect in the future from this administration from 1986 forward in terms of Federal assistance.

Mr. **Stanley**. I would think that this administration and the budget couldn't be clearer. We will not fund any other new start projects in either Los Angeles or in Houston from fiscal year 1986 forward.

What I tried to explain to the committee is what went on with the new administration. Two years ago, I felt very strongly that if we were going to have a dedicated trust fund, that areas, particularly in the Sun Belt, that needed public transportation should be eligible. I argued the other side of the case for 2 years running with people within the administration and we didn't prevail easily.

I would credit Secretary Dole for 2 years in a row with preserving that program in her discussions with OMB. That was a major bone of contention, not just in the 1986 budget, but the 1958 and 1984 budgets.

What happened to the program and the legacy of what has happened, absent any sense of criteria and behind those 12 projects are a number of other cities who want the funding—the message is clear, that they needn't comply with criteria from UMTA. They needn't comply with congressionally mandated criteria. That they needn't come up with local funding. What they really need to do is get an anchor by getting it earmarked from Congress.

I cannot and will not try to explain to cities one after another that that is no assurance of funding in the next year, that you're starting a major capital program with no assurance that you'll get any kind of a funding. The biggest regret that I have, and I will be very candid with you, is a number of people in UMTA, career people who have attempted and have done a great job trying to come up with a set of criteria, but the message is clear that cities needn't comply with those criteria. That some of those tough local decisions on local funding, both for now and for operating can be postponed because in the third and fourth year of the Federal involvement in some of these projects, it would be too embarrassing for the Federal Government to not complete the project.

Part of my frustration in trying to run this program is that I am on the dark side of one of those projects in Detroit, in which the truth of the matter is, from the section 3 money or section 9 money, there is not enough money to finish the project, not in Detroit, not in the State of Michigan, not in Washington.

We are faced with the kind of consequences that I would predict for several of the other projects, absent an assured level of funding. In that atmosphere, it became impossible to defend the new start program.

Mr. SHUSTER. That really leaves cities like Houston and Los Angeles who have done a good job, who have earnestly worked at their systems and, I think, by your testimony, have proven to be cost-effective, without any assurance. In fact, being told no by this administration on plans that we have been literally been working on for a decade, at least in Houston and I'm sure just as long in Los Angeles.

Mr. STANLEY. Los Angeles, I think recently celebrated their 20th anniversary with attempts to plan a major transit funding.

Let me say this. There is no way, if we were to go ahead and if the budget that had come up here said, new starts are elegible, that I could go down to Houston this year and say, this is what I think you're going to get in fiscal year 1986. I couldn't say that in fiscal year 1985 until the morning after the continuing resolution passed.

I have asked this question before. If I were in charge of the capital program, either in Los Angeles, Houston, Seattle, or otherwise. You hire a general contractor to build a busway, or if it is a light rail line in Houston, particularly if the Federal commitment is going to be on the order of 75 to 80 percent as it has been in Miami, on the sole assurance that there is a possibility and probability that you'll get funding next year, but we're not sure how much.

Let me give you the real world example of that in Jacksonville, FL.

I signed a full funding contract with Jacksonville because I testified that I would comply with the earmarks in 1984. That full funding contract buys the city of Jacksonville seven-tenths of a mile of a people mover. As a transportation project, that is virtually worthless. It's a couple of blocks that, in an area like Jacksonville, is much more enjoyable to walk.

The project is being started with the premise and assumption of 75 percent Federal funding. The earmark for Jacksonville went from $15.5 million in 1984 to $1.8 million in 1985.

I don't know what it would be by 1986, but that project cost is about $200 million. They are buying land, tearing up land and are going to begin construction of a partial segment which I would predict in a year or two, unless this problem is solved, the people from Jacksonville, rightfully, will be up in UMTA asking, why did you start something you can't complete.

That is exactly the case I am in in Detroit. There's a $60 to $70 million cost overrun. I have no available funding in section 3 to help them. The perception in the city of Detroit and in the region is that certainly Washington has available money or Washington wouldn't have spent $107 million so far on this project.

The truth of it is, we don't have the funding for the project and how we grapple with that over the next couple of weeks, we're really faced with the question of whether you continue the project to completion and scramble on an emergency basis to try and find available formula money or not.

Mr. SHUSTER. Realistically, what is the affect on local communities like Los Angeles and Houston? Who will bear the cost then, how will cities like Houston, cities like Los Angeles, be able to afford it?

Mr. STANLEY. I would say with cities like Houston and Los Angeles, if you take a look at the Houston funding, they're raising about a $100 million a year. Presuming they adopt one of the three plans they have, if that funding had binding authority, which was the subject of the revenue vote 2 years ago, just presuming with Houston's credit rating, they could bond 5 to 1 against that. I would say that for each of those three projects, while Federal funding would help them be built quicker and would help them be built, perhaps on an accelerated schedule, Houston could, indeed, afford whichever of those three out of its trust fund.

And I mean that. I mean, it would take some more time.

I think, with regard to the Los Angeles metro rail project, in terms of the funding, as currently identified and currently available for that project, they couldn't afford it. That is a question I would answer city by city.

One of the things we did last year was send an investment bank around to check about the stability of that program. An investment team went to each of the cities to check what that local commitment was and how long it lasted, whether or not you had the kind of funding mechanisms that have been set in place in places like Atlanta where there is a long term dedicated funding source or whether you didn't. Whether it was subject to the whims of the city council, county commission, State legislature, year in and year out appropriations. That's how we judge the stability of local funding.

In some areas, on some projects, I think they will be able to fund them to completion.

I would say in Houston they probably could do that over a longer time schedule. In Dallas, the local funding adopted in the Dallas area, for an $8 billion light rail plan appears, on projections, to be adequate to build it over a 25-year period.

It is difficult for me to come before you and say an idea that this administration supported and that I supported 2 years ago, as a very smart transportation idea, for cities like Houston, which have, in my view, the greatest transportation problem of any of the eligible cities that are competing, that we no longer can justify the funding of the program. It's a budget reason and it's one I stand before you today and support 110 percent. I don't have the discretion over the program and that was why the administration support for this program, more fundamentally than anything, was withdrawn.

Mr. SHUSTER. I guess I just really want to be real clear about what the message is to both our cities from this administration relative to mass transit funding in the future and I appreciate your input.

Mr. STANLEY. The message is that we can no longer afford the level of transit assistance we have provided in the past.

Mr. SHUSTER. I appreciate your testimony.

Mr. ANDERSON. Mr. Sunia.

Mr. SUNIA. No questions, thank you, Mr. Chairman.

Mr. ANDERSON. Back to some of mine then.

Mr. Stanley, awhile ago you were talking about the budget process of going down and seeing Stockman. Since the budget processes is a mystery to most of us on the Hill, could you explain how the budget is developed from the administration?

Mr. STANLEY. I would say that the budget process is a mystery to a lot of people within the administration as well.

The budget is developed over the course of several months. We have initial submissions to OMB. OMB provides us with comments and there are meetings between the Department and OMB. There are meetings between our budget office and OMB, and final conclusions on the overall budget are reached in time to meet with the schedule of submitting the President's budget shortly after the State of the Union.

The formal document that comes back from OMB is the pass back. In the past there have been meetings with the cabinet at the White House. In this past budget process, there were two cabinet meetings regarding the budget and the choices that were before the administration prior to the development of the final pass back. We work closely with OMB in that regard and this year, other than an effort to try and reach significant funding cuts, was no different than in the past.

Mr. ANDERSON. Well, if you are working with OMB, what level of funding was initially recommended by the Department for sections 3 and 9 and the Highway Program.

Mr. STANLEY. The Highway Program, I am not clear what the initial funding request was. Again, the discussions on any of the budgets start out basically with a budget from the prior year. Our initial discussions with OMB started out in the same accord and when it became clear what level of spending reductions this administration wanted to achieve we looked at each program within the Department—Federal highways, transit, and AMTRAK.

There wasn't an initial request by the Department that was turned down or that OMB, without consulting us, decided was less.

It was a question of what we could afford in transit and still achieve significant spending cuts.

Mr. ANDERSON. Are there any examples of where you were able to get the OMB to change its position on some part of its proposals or did you have to do all the giving?

Mr. STANLEY. No; there were a number of discussions. One of the initial requests from OMB, as I recall, was that there be a higher matching level for capital. We said that we agreed that there should be a higher matching level, but it shouldn't be at the level that they initially proposed and compromised on 30 percent.

There were discussions over the 16(b)(2) program and our experience with funding that program for the elderly and the handicaped and the need that existed for that.

There were discussions over what formula should be chosen once the decision was reached that the trust fund would be preserved at the $1.1 billion level, which formula operated most fairly. We talked about section 9 and 9A. There were discussions about the idea of resurrecting phasing out of operating assistant, but given our lack of progress in the past and the need to achieve real savings, we talked about every item in the budget.

Mr. ANDERSON. I suppose what I am trying to establish is whether this is a Stockman budget or whether it is a DOT budget?

Mr. STANLEY. This is a DOT budget. I would say that I went over and in my meeting with David Stockman he made it very clear the kinds of choices he was confronted with and he began with the predicates that there would be no revenue increases.

You begin with the idea that the trust funds, the sanctity of the trust fund principle was preserved. I think that's reflected in the highway budget.

You begin with what kinds of general revenue programs in our department you can, through the discretion of the executive branch, actually reduce, and I would say to anybody who started with the premise to achieve real savings, at least with regard to the Department of Transportation, if there are ways to identify savings in other parts of the Department, I would be glad to discuss that with the committee, but with a goal of reducing that spending, AMTRAK and the mass transit general revenue account, are clearly where you are going to achieve those kinds of reductions.

Mr. ANDERSON. Do you think that this budget which we are being presented with, will help improve transportation in this country?

Mr. STANLEY. I think the Department's budget will significantly. I think with regard to the transit budget——

Mr. ANDERSON. Wait a minute. Well, the Department, that's the whole budget, highway and everything. How about the transit budget?

Mr. STANLEY. Well, the transit budget, I think it will help improve transit to the extent we provide that level of funding.

Will it require substitute funding from State and local governments, absolutely. There is going to have to be an effort and a renewed effort and a real effort by a number of transit agencies to raise higher, local and State subsidies if they are going to continue to operate the kind of service at the kind of levels that they have in the past.

Mr. Anderson. Do you think then that by cutting transit funding by 70 percent, that transportation will be improved?

Mr. Stanley. I think transportation will be improved by providing a level of funding in excess of $1.1 billion to the extent that we can afford it.

Will transportation be injured by it? I would say to the extent that these areas in these States and example after example of the States that we have dealt with, that have been reluctant or have refused to provide dedicated funding for transit, I think there is substitute funding available out there. That's not a myth, it's not rhetoric, it's not a slogan from us, I think that is real world. I can tell you, in regard to Pennsylvania and in Philadelphia, if SEPTA is going to provide that kind of assistance, is going to have that kind of rehabilitation, SEPTA ought to adopt some kind of regional funding.

I think the State of Pennsylvania has a $188 million surplus and is proposing a tax cut. I personally favor tax cuts, but I think that that State, that wants that level of transit service, should think first about providing additional funding for transit.

It becomes very difficult for me, in a number of these areas, to talk with State and local officials who have been, for local reasons, reluctant or resistant to adopting dedicated funding. It has been done in other areas. It has been done in Atlanta. It's been done in Dallas. It's been done in Houston and I think it has been done to a level where they can afford to provide public transit.

Mr. Anderson. If by cutting the transit budget by 70 percent we're going to improve transportation, maybe we ought to tell Cap Weinberger that we're going to improve his Department too by cutting his defense budget a little bit.

Mr. Stanley. The decision to reduce the level that the Federal Government can afford to provide for transit was first and foremost a budget decision. I said secondly, you look at the history of the program. I was interested in listening this morning to Congressman Edgar. The mayor of Philadelphia, Richard Dilworth, when the operating assistance was first introduced came in and testified that this was a temporary solution to the financial crisis that was being experienced in a number of the major public transit rail properties and that it would be temporary.

The same testimony and same statement was given by Senator Harrison Williams who, when in the Senate for many years, was a great supporter of transit funding.

Operating assistance, once thought to be temporary has now become permanent. I think we have got to look a little bit beyond measuring our success in providing mobility for people in urban areas simply by measuring what the funding level was in any given prior year.

Mr. Anderson. I was surprised to learn that the funding level was reduced $3.8 million. But UMTA is being cut by $2.8 billion. It really appears to me that the Department of Transportation is trying to make its cuts strictly on the backs of UMTA. I always thought that we were aiming at a balanced modal program, but right now it looks like we're not getting that balance; $2.8 billion out of $3.8 billion is overwhelming.

Mr. Stanley. We are making a more significant contribution.

Mr. ANDERSON. Contribution?

Mr. STANLEY. Contribution to the effort to reduce the Department's spending which is undeniable. It's not that UMTA views the deficit more seriously than my friends in FHWA, but you have to go through the budget. I have done this and we have talked about trying to come up with an equitable set of cuts. We talked about across the board or a freeze, in terms of the legislation, to change what we have said with regard to trust funds, I think you run up, if you've got that kind of dollar goal of reductions, you run up against the user fee principle which this administration has supported and attempted to continue to support. At the same time we have achieved actual reductions in what spending we are going to provide in fiscal year 1986.

Mr. ANDERSON. Well of the total non-user-fee programs, what is the percentage that has been cut at the other modes in relation to those cut at UMTA?

Mr. STANLEY. I would have to answer that, for the record, Mr. Chairman.

Mr. ANDERSON. I can give you what I have here. Departmental-wide, including UMTA, the cut in non-user-fee programs is 56 percent. Not including UMTA, the non-user-fee programs are cut by only 36 percent. So obviously the non-user-fee programs at UMTA are being cut much more deeply than at the other departments.

Mr. STANLEY. Does that include the Coast Guard and the FAA within the Department?

Mr. ANDERSON. This came from your Department, I think.

Mr. STANLEY. I think you're correct. Your arithmatic is correct, it did come from the Department.

Mr. ANDERSON. It should be because that's where we got it.

It seems to me that we are going overboard in hitting one group much more that we are the others.

I think UMTA has been singled out for reasons totally unrelated to the source of their funds. I think that, perhaps, it has been convenient to clothe the transit cuts in those terms but frankly, based on the administration's attempt to defer section 3 funding less than a month after the enactment of the Surface Transportation Assistance Act. I think this administration simply doesn't want the Federal Government involved in public transit. That is what it looks like when you cut it by almost 70 percent.

Mr. STANLEY. I can understand that. The distinction that I would also make is that we are fundamentally and primarily responsible, within FAA, for the Federal air space system. The Coast Guard is clearly a Federal responsibility. These are general revenue funded programs.

UMTA is a grant-in-aid program and we do not and are not and should not be fundamentally responsible for the systems to whom we provide financial assistance. I would submit that in the past and at present, in State after State, there are tough funding decisions that have to be made about transit systems in which those States are either postponing or refusing to make that case.

One more example is in Boston. The MBTA is a State agency. There is a $164 million State surplus. Through a combination of increased State funding, possible increase or slight increase in fares, the MBTA, in my view, could adequately make up for lost Federal assistance.

But, when I hear that the State of Massachusetts will not reprogram, will not use any of that surplus for the MBTA because they don't find that as a priority project for them, it is hard for me to justify maintaining a consistent level of Federal funding and making the argument that if it is not a priority to people in Springfield, MA that it should be a priority here in Washington, of the same order.

Mr. ANDERSON. Before I finish my questions, I should like to bring up one more item.

I think, if I had been given the opportunity to turn back the hands of time, I might have at times selected a different choice of words, and you might too.

You were quoted as saying, "The new start program was a ponzi scheme." Will you tell us first, what a "ponzi" scheme is and secondly how it applies to new starts?

Mr. STANLEY. First, I would apologize for an unfortunate analogy.

Mr. ANDERSON. You got good press on it.

Mr. STANLEY. Too much, I'm afraid.

What I was trying to describe was a frustration that I have felt since I have been in as Administrator. A reporter from the city of Miami was indicating to me that the money that had been earmarked for Miami meant that we would complete the people mover and two major extensions the cost of which was about $600 million.

I said, no, that there was no assurance of that and was contradicted several times and on the way out, attempted to explain to the reporter how a "ponzi" scheme operated. That the initial funding was given out of a limited amount of dollars. Certain investors got in and then 2 or 3 years later, there wasn't adequate funding to complete the investments.

I apologize for the analogy, but in a frustrating effort to explain that those earmarks were not commitments to whole projects. I was trying to translate it to a reporter in Miami and that is how "ponzi schemes" work and I think that is one of the frustrations I have had and outlined earlier on new starts.

It is a program over which I have no discretion. It's a program which, again, the projects have bipartisan support and it has become difficult to justify and/or explain our funding under that program.

Mr. ANDERSON. But you don't think that new starts are categorically bad, do you?

Mr. STANLEY. No. I think that some of the systems that have been proposed have clear benefits to those given areas.

Mr. ANDERSON. Then why do you categorically impose a no new starts policy?

Mr. STANLEY. I think that the reason is that we can no longer afford new starts or Federal support for new starts. I would say that there are two issues. One is the merit of various transit projects proposed in these urban areas which we have categorized as new starts and two, whom and how you pay for them. What our budget says is, merits aside, the Federal Government simply cannot afford to pay for those projects to the extent that those projects depend on that funding.

Mr. ANDERSON. Last year you invested considerable time and energy into developing new starts criteria that could be used to evaluate the relative merits of these projects.

Could you tell us, among these projects which two or three were the best?

Mr. STANLEY. The two or three of the best that we looked at were Los Angeles, Houston, and Seattle. In Houston, the bus ways were the two projects that we examined. Under the criteria that I outlined earlier, those three, at the time the criteria were proposed, rated the highest.

Atlanta and the parts of the Atlanta system, subsequently also rate fairly high.

Mr. ANDERSON. Houston, Los Angeles and Seattle were the three highest or the highest according to your criteria?

Mr. STANLEY. Right.

Mr. ANDERSON. And how would you stack up your criteria with those that the committee developed as part of H.R. 5504?

Mr. STANLEY. The criteria were virtually identical with that was one aspect of that bill.

Mr. ANDERSON. We got it from you, I think.

Mr. STANLEY. We ended up there were four that we were fully supportive of.

Mr. ANDERSON. Did you submit a letter of intent for Los Angeles to OMB?

Mr. STANLEY. We talked with OMB and there was a draft letter of intent when we were attempting to come up with a budget that preserved limited funding for new starts. That necessitated choices. I did draft a letter of intent which showed what the out-year obligations would have been for the 4.4-mile operable segment.

Mr. ANDERSON. Just 4.4 miles.

Mr. STANLEY. Just with regard to that part of the project. When the budget decision was reached that we would no longer fund new starts, the issuance of a letter of intent became a dead issue.

Mr. ANDERSON. When was that that you submitted that draft letter?

Mr. STANLEY. It wasn't a submission. What I did for OMB was show them a draft letter of what the obligation requirements for the Los Angeles projects would be.

We discussed that, I would say, in early December. Some of the final decisions on the budget were reached——

Mr. ANDERSON. December 1984?

Mr. STANLEY. Yes, December or January. When the conclusion was reached there would be no new start funding, the idea of a letter of intent or further funding for Los Angeles became a moot issue.

Mr. ANDERSON. Between 1971 and 1981, Washington, DC, Miami, Atlanta, Baltimore, Buffalo, and Portland, which combined have a smaller population than Los Angeles, received $8.4 billion for rail and bus purposes. During those same years, Los Angeles received $300 million. People of Los Angeles, of course, helped to build the systems in those other cities. We pay, in California, approximately 10 percent of the national taxes.

Now that they are ready to begin construction, Los Angeles funding is being shut off. Is that fair?

Mr. **Stanley**. I can't find a great deal of equity in that when you approach it from the perspective of the taxpayer in Los Angeles. I can say that between the same years of 1971 and 1981—my numbers may be a little bit wrong—our Federal budget deficit grew, certainly in the last part of the 1970's, from $50 billion a year to today's $200-billion-a-year-deficit.

I think given that kind of overriding concern about the deficit, had Baltimore, Washington, or any of those other projects approached, or Miami—and Miami is still attempting to continue extensions—the message would be the same as it is to the people of Los Angeles today and that is that we can no longer afford to provide those kinds of subsidies at the level expected.

Mr. **Anderson**. If there is reprogramming such as that suggested by the Secretary, how much, roughly, would be available for reprogramming?

Mr. **Stanley**. I would say all the funding, if you start with about $422 million in new start funding, our obligations to Portland are about $19 million, Detroit about $5 million, obligations in Santa Clara are $64 million this year and I believe $80 million next year, fiscal year 1986. The balance of that would be available for reprogramming.

Mr. **Anderson**. That's about $380 million, isn't it?

Mr. **Stanley**. Less than that.

Mr. **Anderson**. I just added your 19, your 5, and 40.

Mr. **Stanley**. You add 64, 19, and 6. Somewhat in excess of $90 million under the full funding contracts.

Mr. **Anderson**. So reprogramming, that wouldn't be sufficient then to build what we call the MOS I, that's the 4.4-mile segment in Los Angeles?

Mr. **Stanley**. No. If you add into that what we are going to do is stop funding MOS I or the 18 mile project in fiscal year 1986, it wouldn't be.

Mr. **Anderson**. If Los Angeles is rated as one of the best projects, if you ever submitted a letter of intent to OMB, why not have the reprogram money go to such a program as Los Angeles if it is sufficient to complete its normal operation cycle?

Mr. **Stanley**. We have given Los Angeles—the Los Angeles Metro Rail System anticipates an 18.6-mile project the total cost of which they expect, from the Federal Government——

Mr. **Anderson**. But the MOS we're talking about is only 4.4.

Mr. **Stanley**. Right. The cost for that, I believe, is slightly in excess of $1 billion. That anticipates a funding schedule, originally as of last year, of about $334 million a year in 1986, 1987 and 1988. I would say that given the decision not to fund any new start projects in 1986, there would be inadequate funding to complete MOS 1. I would also submit, time and again, people in Los Angeles have indicated to me that that minimum operable segment is but the first part of an 18-mile project. We find the same question of whether or not we want to leave a 4-mile subway in Los Angeles knowing that we have inadequate funding to complete the 18-mile project as proposed.

There is no way, from the numbers, that we could do that and end the new start project in fiscal year 1986.

Mr. **Anderson**. Mr. Shuster.

Mr. **Shuster**. No questions.

Mr. **Anderson**. Thank you, Mr. Stanley.

Mr. **Stanley**. Thank you very much, Mr. Chairman.

Mr. **Anderson**. I know that Bud Shuster is more into this next subject than I am, but I will start.

Ms. Steed, last year the Congress set aside 8 percent of the 402 funds for comprehensive child restraint programs. Would you please tell us where you are on that?

Ms. **Steed**. Yes, Mr. Chairman. We worked very hard on developing some very specific criteria that the States should follow for using that 8 percent money wisely. In so doing, we worked very closely with the Governor's representatives. We sent the guidance out last October. Because of some uncertainties in the funding, however, we didn't get it out in time for the States to include it in their fiscal year 1985 highway safety plans.

They are now developing plans for using the 8 percent money. They will be sent in as amendments to the highway safety plans and we anticipate some very good use of that money, especially concentrating on child seat enforcement programs and on correcting the misuse of child seats that we see.

Mr. **Anderson**. How many States have comprehensive programs similar to that envisioned in the committee legislation as defined in the report?

Ms. **Steed**. I think that all States could make very good use of the 8 percent money. There are none that I can say would qualify very specifically with all elements of the comprehensive program. Again I think most of the effort, across the board, needs to be concentrated in enforcement and in education about misuse. Singling out one State, I think Michigan has an excellent program, but again, they can use some help just like other States.

Mr. **Anderson**. You may have answered this, but are there States that may have difficulty in complying in 1986 as their program currently stands and if there are, what States are they?

Ms. **Steed**. We know of no State that will have difficulty. In fact they are all looking forward to the 8 percent money. With the criteria that we have worked out in cooperation with the Governor's highway safety representatives, we think the money will be very well spent and do a lot to increase proper child seat use.

Mr. **Anderson**. Could you please discuss the misuse problem with child restraints and explain what the agency is doing?

Ms. **Steed**. Certainly. We have done a number of research projects and observations looking at how child seat usage is growing and at what is happening with proper usage.

We're very pleased with the way usage has grown. Overall, between toddler seats and infant seats, we see about 50 percent usage rates nationwide. We think that is tremendous. It's grown a little over 30 percent from what it was just a few years ago, and part of that is due to the number of child seat laws that have been enacted over the last few years.

The misuse problem, however, concerns me very much. Our research shows that there are two or three major misuse problems. The first is with tether anchorages. About 85 percent of parents with seats that require tether anchorages, are not using the anchorages or are using them incorrectly.

What concerns me even more than that is that about 78 percent of those parents know they are using the tether anchorages incorrectly and yet don't make the extra effort to use them correctly.

A second misuse problem is that parents are not using the harnesses that are provided on the child seats. They tell us that the harness is too much trouble, or the child doesn't like it, or give some other excuse. A third reason for misuse is that the seat is not properly positioned in the car. It's facing the wrong direction, or otherwise out of position.

We have a number of efforts under way to educate parents on proper usage. We are working through the Governors' highway safety representatives, and we have a major educational effort with the National Child Passenger Safety Association. We have worked with a number of States to get information out that specifically addressed the tether problem. We have a rulemaking that I think is going to go a long way to correct the tether problem.

I would say that most of our efforts are on correcting the misuse problem at this point.

Mr. ANDERSON. Very good. On your computerized traffic records, Public Law 98-363 authorized an additional 10 percent of the 402 funds and grants to States which include the use of comprehensive computerized safety record keeping systems as part of their Highway Safety Program.

My question is: How many States have submitted eligible programs for the computerized traffic record keeping systems grant and how much money will be allocated in 1985 under this grant and can you project for 1986?

Ms. STEED. That's a little difficult to do at this point. We have given criteria to the States and they are developing amendments to their highway safety plans. There are States that are more advanced in doing what they want to do to improve their traffic records, but at this point it is a little too early for me to predict.

We would be happy to submit that information to you as soon as possible.

Mr. ANDERSON. Would you submit that for the record because we would like to know how much money will be allocated and some of your ideas on it?

Ms. STEED. Certainly.

[The following was received for the record from Ms. Steed:]

COMPUTERIZED RECORDS—ALLOCATIONS

There are 30 States which have submitted programs eligible for computerized traffic records keeping systems grants in fiscal year 1985. By the end of fiscal year 1985 we expect nearly all States to have been approved for these grants. Fiscal 1985 and 1986 allocations are $13,150,000 and $13,670,000 respectively.

Mr. ANDERSON. Although it is hoped that the State recordkeeping programs will eventually link up with the NDR, their principal purpose is to develop an overall traffic safety system within the State.

Can you elaborate on how the money is likely to be spent on these systems and how much emphasis should be placed on the State system as opposed to the NDR?

Ms. **Steed**. Yes. Our primary objective is to upgrade the traffic record system in each State. They now vary all over the lot from systems that are hardly computerized at all to very sophisticated systems in some States. We are encouraging each State to use the money to upgrade and improve its traffic record system.

We also said that an appropriate use of the funds would be to anticipate the National Driver Register and any improvements needed there, but primarily we are encouraging the States to improve their traffic record systems, to upgrade the system so they can have a high accident location identification system. This will enable them to concentrate their enforcement, signing, and other improvements in the areas where they have high accident rates. So, we're working mostly on improving the State system.

Mr. **Anderson**. On the National Driver Register, what is the status of the NDR currently?

Ms. **Steed**. We have made great progress in the last few months, Mr. Chairman. We have the design of the system complete. We have consulted with the States on the type of system that we intend to operate and received their guidance. Some changes in our schedule resulted from our consultations with the States.

We have sent out what we call a "request for comment," to the States that gives them a pretty good idea of what criteria we'll use to judge and select the pilot States for the NDR. We plan to send out the RFP, the request for proposal, from which we will select the pilot States at the end of this month.

Mr. **Anderson**. How many States are participating in the NDR?

Ms. **Steed**. Right now, all States participate in one form or another. We have two States that ask for inquiries but do not send us records. Texas, on the other hand, sends us its records, but doesn't make any inquiries. They all participate in one form or another.

Mr. **Anderson**. How much of the funds in the proposed budget for fiscal years 1985 and 1986 have been set aside for carrying out the provisions of the law containing the NDR and how much money remains unused?

Ms. **Steed**. Because it took us longer that we would have liked to come up with the systems design and to consult with the States on how quickly we could carry out the development of the problems driver pointer system, we are behind in our outlays. It is my understanding that there were $2 million set aside for the system. At the end of fiscal year 1985, there will be about $85,000 left, so we are catching up this year.

Mr. **Anderson**. I have three more sets of questions. I will yield at this time to Mr. Shuster.

Mr. **Shuster**. Thank you, Mr. Chairman. I appreciate you being here today, Ms. Steed.

First of all, I want to complement you on the first-class job you are doing down there at NHTSA. I think we're seeing some real results and it's largely due to your fine leadership.

Second, I am very pleased with the responsiveness at NHTSA with regard to 209 as we are developing it. As we discussed earlier with the Secretary, it certainly presents us the opportunity of saving lives and reducing accidents, and I am looking forward to a very close coordination and cooperation with you on that.

With regard to that issue, in particular, we're very concerned that, the Department of Transportation budget recommends a reprogramming of some $17 million for Secretary Dole's Occupant Restraint Program.

Included in this reprogramming, as you know, is $10 million from section 209, the Highway Safety Information and Education Program, and $6.5 million from the emergency relief fund. I have tried to work this out with the Secretary. I have talked with her about it on several occasions, and I know my staff has been in contact with your agency with regard to this, to see if something could be worked out.

We have slowly and sadly come to the conclusion that we must oppose this reprogramming. To that end, we are preparing a letter which soon will be delivered expressing our views that this reprogramming should not occur.

Let me go into this in more detail. First of all, the Occupant Restraint Program for which this reprogramming is proposed, is not authorized specifically in the law and so I would like to know, on the basis of what authority is the department proposing to implement this program?

Ms. STEED. Well, we do have authority to carry out public information and education programs and authority to improve highway safety. The Occupant Protection Program, at the $20 million level, is really an extension of what we have been doing over the last 3 years, with much lower funding than that, about $3 million a year.

Mr. SHUSTER. The 209 funds included in the reprogramming request are contract authority. In other words, they do not require an appropriation to be spent. In fact, I specifically wrote this into the legislation because when I originally authored 209 back, I think in 1978, we did not provide it in contract authority and we ended up finding that while it passed and was in the law, it was not funded. So as to cure this problem, I rewrote it in the 1982 law to provide for contract authority spcifically, so that we would not have to rely on appropriations.

Given that fact, that it is contract authority and does not require an appropriation to be spent, don't you think it's more appropriate for you to ask this committee to reprogram the fund rather than the Appropriations Committee?

Ms. STEED. We would be happy to discuss that with you. It's my understanding that the Appropriations Committee did put a cap on what we could spend anyway, notwithstanding what you rewrote.

They had cut back on authorization, I believe. In the first year they had authorized $1 million and then the second year authorized an additional $4 million for a cap of $5 million total.

Mr. SHUSTER. We have problems with that, but that is a related issue.

As I understand the intent of DOT's Occupant Restraint Program, it's the push for mandatory seatbelt laws at the state level. That is correct, is it not?

Ms. STEED. It's broader than that, Mr. Shuster.

It's really to encourage and educate the public on occupant protection in general, the need for it, and the many types of protection that there are. State usage laws are only one part of that.

Mr. **Shuster**. But included in that is the push for mandatory seatbelt laws.

Ms. **Steed**. Encouragement of laws, yes, sir.

Mr. **Shuster**. On the other hand, the section 209 program was created to encourage people to voluntarily improve their safety habits on the highway. For example, legislative history indicates that the program was to be used to encourage the voluntary use of seatbelts. Doesn't the proposed use of this $10 million contradict the original intent of the 209 program?

Ms. **Steed**. I think it complements the original intent. Much of our Occupant Protection Program will be spent just to educate the public on the need for occupant protection and to raise the voluntary usage.

Mr. **Shuster**. So none of these funds would be spent to encourage States to pass mandatory seatbelt laws, is that what you're telling me.

Ms. **Steed**. It will be used to educate the public about all types of restraint and about the benefits and what can happen when laws come in.

Mr. **Shuster**. Including mandatory seatbelt laws?

Ms. **Steed**. That's correct.

Mr. **Shuster**. Including mandatory seatbelt laws?

Ms. **Steed**. Including mandatory laws, that's correct.

It was our experience——

Mr. **Shuster**. Is it not true that the 209 program very precisely avoided mandatory seatbelts and instead focused on voluntary?

Ms. **Steed**. That's correct, it did.

Mr. **Shuster**. So reprogramming this away from 209 to this other program would be reprogramming it away from one of the intents of 209 to a different intent. I want to emphasize that I am not expressing any opposition to that different intent here, but it is different. Would you agree with me that there is a fundamental difference?

Ms. **Steed**. Yes; that is different, that's correct.

Mr. **Shuster**. We're very concerned about this. We hope that the Department will reconsider. I know the Secretary assured me that she would support funding at a future date of the $10 million; that's nice and I appreciate it, but things change and we see the possibility of this being reprogrammed and our never being able to get our hands on it again. Therefore the very purpose for which I authored this into law and the purpose for which it was passed would possibly go by the wayside.

So, I would urge you to reconsider your position with regard to reprogramming this particular 209 money.

Thank you.

Mr. **Anderson**. Ms. Steed, my next question relates to splash and spray devices. Section 414 of the Surface Transporation Assistance Act required that the Secretary of Transportation issue minimum standards regarding the use of spray suppressant devices on tractor trailers. Those standards have not been issued nor has there even been a promised note of rulemaking. Would you please tell us why you have failed to issue a proposed standard?

Ms. STEED. Once we undertook the research necessary to look at splash and spray suppressant devices, we found that it was a much more complex subject than we had originally thought.We did a number of field tests where we actually equipped trucks with the full side skirts and with the mud flaps that go behind the wheels and actually measured the difference between trucks so equipped and trucks without any of these types of devices.

We found in our research that, in fact, you could reduce that spray and the splash by somewhere between 25 and 50 percent as measured by a laser device, but as you look at the films and as you watch the trucks, with the naked eye, it was very difficult to see any improvement at all, so it took us a little bit longer in research than we had hoped.

We have developed a notice of proposed rulemaking. We submitted it to the Office of Management and Budget sometime ago and they have yet to clear it, but it is my understanding that we have cleared up any differences with OMB. I hope that we can issue that notice very quickly.

Mr. ANDERSON. My question is: What are your plans and timetable for complying with section 414 and would you tell us then that it rests with OMB at the present time?

Ms. STEED. It's with OMB and it is my understanding that they had some minor comments on it which we have agreed to incorporate and I would hope we could get it out just very shortly.

Mr. ANDERSON. Now, I understand that you may have explained this a little but, but that NHTSA test results from trial runs in February 1984 have just been placed on the docket. Will you explain why it has taken nearly a year for these results to be made public?

Ms. STEED. Actually, we did the tests in February 1984. They took about 2 or 3 months and we immediately docketed the results of the tests. However, the final report was a contractor prepared report and they sent it to us in January of this year. We reviewed it and docketed it immediately, but the results of the tests have been in the docket available to the public and have been under discussion for all of that time.

It was simply a matter of docketing the official report.

Mr. ANDERSON. This is more on 408 that I had earlier. NHTSA estimates that an additional 11 States will qualify for grants in fiscal year 1985 and 11 more in fiscal year 1986. Can you list the States you project will qualify in those years?

Ms. STEED. I would hesitate to do that. We did our projections on the basis of discussions with the Governors' representatives and their highway safety representatives and their estimates of legislative changes in their States.

Hawaii is very close. New Jersey is very close on the supplemental grant. Those are 2 that we would include in the first 11, but to give you a projection of the specific States would be very difficult at this point.

Mr. ANDERSON. Would you do it for the record later on?

Ms. STEED. We could do that.

[The following was received for the record from Ms. Steed:]

SECTION 408 GRANTS—QUALIFYING STATES

The following States have legislation pending to qualify them for the alcohol traffic safety incentive grant under Section 408. While we have not received the full legislative packages from these States and do not know what the final outcome will be on the proposed legislation, it is a good indicator of the States' efforts to meet the requirements for a basic grant under Section 408: Illinois; Kansas; Maryland; Michigan; New York; Oregon; Washington; Texas; and District of Columbia.

We have reviewed full legislative packages from the following States, which if enacted should qualify them for 408 grants in fiscal year 1985: Hawaii; Iowa; and West Virginia.

In addition, we believe from off-the-record conversations with Governor's Highway Safety Representatives, State legislators, and other officials, that legislative efforts are being made in 10 additional States to qualify for 408 grants. However, at this point these initiatives have not reached the stage of public disclosure and are not included on our list.

Mr. ANDERSON. And could you also indicate how many States are receiving basic grants of 30 percent and how many are receiving supplemental grants as well for the full 50 percent?

Ms. STEED. Thirteen States have qualified for the basic grant and 16 States have qualified for basic and supplemental.

Mr. ANDERSON. And any examples of the results achieved?

Ms. STEED. They are very dramatic. For example, North Dakota, which was the first State to qualify, has reduced its alcohol-related fatalities by some 44 percent. Delaware was the second State to qualify and has reduced its alcohol-related fatalities by around 30 percent. The same is true in Indiana, which I believe was the third State to qualify, so the 408 Grant Program has really helped and we're seeing dramatic reductions in alcohol-related fatalities.

Mr. ANDERSON. Do you believe that the 408 Program is effective? Apparently your answer is, yes.

Ms. STEED. Absolutely.

Mr. ANDERSON. And would the States have made progress without these funds?

Ms. STEED. I think they would have made progress simply because of the tremendous push at the grassroots level against drunk driving. I don't believe that without the 408 grant funds, they could have made some of the basic institutional changes, some in traffic records, some in basic community comprehensive programs. Without those additional funds, we could not have seen these dramatic results as quickly.

Mr. ANDERSON. I would like to have you tell us the total amount, and if you can not do that, for the record, tell us the total amount spent on the 408 Program, breaking it down into State apportionments and percentages and the amount estimated to be obligated by States for fiscal year 1986?

Ms. STEED. The total is about $28.8 million and I would like to supply the specific State-by-State breakdowns for the record.

[The following was received for the record from Ms. Steed:]

SPECIFIC SECTION 408 BREAKDOWNS

The total is about $28.8 million. The specific State-by-State breakdowns for grants awarded to date and for obligations anticipated through fiscal year 1986 are as follows:

ALCOHOL TRAFFIC SAFETY INCENTIVE GRANTS

(Funds awarded March 4, 1985)

State	Basic grant	Supplemental grant	Total award
Alabama	$556,418	(1)	$556,418
Alaska	137,200	104,800	262,000
Arizona	420,848	280,565	701,413
Delaware	157,200	104,800	262,000
Indiana	723,902	482,601	1,206,503
Louisiana	527,956	351,971	879,927
Maine	157,200	104,800	262,000
Mississippi	387,633	258,422	646,055
Montana	217,959	145,306	363,265
Nevada	164,093	109,395	273,488
New Hampshire	157,200	104,800	262,000
New Jersey	796,474	(1)	796,474
New Mexico	233,866	155,911	389,777
North Dakota	232,358	154,906	387,264
Rhode Island	157,200	104,800	262,000
Utah	230,349	153,566	383,915
Total	5,277,856	2,616,643	7,894,499

[1] 45 day prompt suspension criterion not met.

ESTIMATE OF FUNDS OBLIGATED

State	Basic	Supplemental	Total
Alabama	$556,418	$370,946	$927,364
Alaska	157,200	104,800	262,000
Arizona	420,848	280,565	701,413
Delaware	157,200	104,800	262,000
Indiana	723,902	482,601	1,206,503
Louisiana	527,956	351,971	879,927
Maine	157,200	104,800	262,000
Mississippi	387,633	258,422	646,055
Montana	217,959	145,306	363,265
Nevada	164,093	109,395	273,488
New Hampshire	157,200	104,800	262,000
New Jersey	1,610,723	1,073,816	2,684,539
New Mexico	233,866	155,911	389,777
North Dakota	232,358	154,906	387,264
Rhode Island	157,200	104,800	262,000
Utah	230,349	153,566	383,915
Sub-total	6,092,105	4,061,405	10,153,510
Additional States	11,187,894	7,458,596	18,646,490
Total	$17,279,999	$11,520,001	$28,800,000

Mr. ANDERSON. And my last question is. What is the fiscal year 1986 request of $8 million in budget authority for and how much of it is trust fund money and when is the legislation coming?

Ms. STEED. $8 million was for the transfer of the Bureau of Motor Carrier Safety and, as I believe that you heard today, that the Secretary has decided to proceed with some administrative changes and does not plan to submit that legislation in the near future.

Mr. ANDERSON. Your budget proposes that of the total fiscal year 1986 request of $80.2 million, before the transfer of unobligated balances for the Seat Belt Program at $25.5 million would come from the highway trust fund. The remainder would be general funds.

Will you please identify the activities and the associated dollar amounts to be supported out of the Highway Trust Fund for operations and research?

Ms. **Steed**. Yes, sir. It includes about $631,000 out of the office of the Administrator, $1,576,000 of general administration funds, $10,284 from the highway safety program, and $12,964,000 from research and analysis. These amounts are funded out of the highway trust fund.

Mr. **Anderson**. Now your budget proposes a rescission for the Deficit Reduction Act of $1.2 million. Would you please identify which programs will be taking cuts and how you arrived at that decision. Also will the rescission affect the trust fund or the general fund? If it is the trust fund, there will be no affect on the deficit, so I wonder which it would come out of.

Ms. **Steed**. The Deficit Reducton Act reductions that we took were the same types of reductions that were taken government wide. Things such as printing, travel, public affairs, and so forth.

I believe our total was $1.4, not $1.2, and I think that a little over half of those funds are from the general funds.

I would like to check that and supply that for the record.

I do believe that some of the reductions were taken from the trust fund though and I will supply that specific breakdown for you.

[The following was received for the record from Ms. Steed:]

Deficit Reduction Act Cuts

We tried to distribute the cuts even-handedly among the NHTSA programs. As the following schedule shows, the largest cuts within the programs were in consultant services, audio-visual materials, and travel.

The following breakdown by expense categories of the rescissions was proposed in NHTSA's budget request.

[Dollars in Thousands]

General fund share of operations and research:	
Travel	$171
Motor vehicles	53
Public affairs	43
Printing/Audiovisuals	76
Consultant services	424
General fund total	767
Trust fund share of operations and research:	
Public affairs	5
Printing/audiovisuals	214
Consultant services	189
Highway safety education and information (trust fund):	
Printing/audiovisuals	250
Trust fund total	658
Total rescission	1,425

Mr. **Anderson**. Thank you. Mr. Shuster.

Mr. **Shuster**. No questions.

Mr. **Anderson**. Thank you very much for an excellent presentation.

Ms. **Steed**. Thank you.

Mr. **Anderson**. Thank you very much and the meeting now stands adjourned.

[Whereupon, at 4 p.m., the subcommittee was adjourned.]

[Prepared statements of DOT Secretary Dole, NHTSA Administrator Steed, Federal Highway Administrator Barnhart, and UMTA Administrator Stanley; and supplemental questions submitted by Representative Anderson, Edgar, and Applegate follow:]

STATEMENT OF
THE HONORABLE ELIZABETH HANFORD DOLE
SECRETARY OF TRANSPORTATION
ON THE FY 1986 BUDGET BEFORE THE SURFACE TRANSPORTATION SUBCOMMITTEE OF THE HOUSE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
MARCH 7, 1985

Mr. Chairman, I am pleased to have the opportunity to meet with you and Members of this Subcommittee to discuss the Department's Fiscal Year 1986 budget request as it affects highways, highway safety, and transit. This request reflects my personal commitment to the policies, transportation goals, and initiatives supported by this Administration over the past four years.

It is a distinct pleasure for me to appear before this Subcommittee both because of the graciousness that you have always shown me personally and because of the leadership that you have shown in advocating user fees for programs under your jurisdiction. With me at the table today is Assistant Secretary for Budget and Programs, Don Derman. I have also asked Administrator Ray Barnhart of FHWA, Administrator Ralph Stanley of UMTA and Administrator Diane Steed of NHTSA to be available to you today for a panel presentation so that all of our experts will be available to respond to your questions.

We face many difficult choices as we seek to reduce the Federal deficit without compromising our mutual commitment to maintain a safe and efficient national transportation system. Our proposed budget will help to clarify these choices by emphasizing the proper role of the Federal Government. At this time, more than ever before, we must focus on truly national needs, and leave local matters to state and local authorities. By working together, I am confident that we can meet this extraordinary challenge.

The Department's FY 1986 budget request contributes to the deficit reduction effort by concentrating Federal transportation resources on areas of broad national interest:

-- It provides continued support for safety.

-- It continues the FY 1985 level of capital investment for the Nation's highway system and for highway safety.

-- It reduces the funding for programs that are not supported by user fees or which do not benefit the general taxpayer.

-- And it encourages the private sector to expand its role in providing efficient transportation services.

As I have stressed throughout my two years in the Department, I consider transportation safety to be the Department's highest priority. For this reason, I have ensured that there will be no reduction in the total level of our safety programs.

Overall, the Department's FY 1986 budget proposes budget authority of $24.7 billion, compared with $28.5 billion for FY 1985. This amounts to a reduction of $3.8 billion or 13 percent. More significant in the long-term fight to reduce the deficit, that portion of the budget authority proposed to be financed by user fees will continue to increase -- from 70 percent of total DOT budget authority in FY 1985 to a proposed 85 percent in FY 1986. In fact, the budget authority not financed by user fees actually declines in absolute terms by almost $4.8 billion from FY 1985 to FY 1986.

Let me now give you a brief summary of our budget proposals for the programs under the Subcommittee's jurisdiction.

FEDERAL HIGHWAY ADMINISTRATION

Our proposal for Federal-Aid Highways continues the 1985 annual level of capital investment for the Nation's highway system to construct and rehabilitate Federal-interest highways and bridges. FY 1986 obligations for this program will be $14.24 billion, the same level as FY 1985. This will consist of $13.25 billion in obligations subject to the ceiling, plus an estimated $990 million for exempt programs ($160 million for Emergency Relief and $830 million for Minimum Allocation projects). Virtually all of FHWA's funding will come from the Highway Trust Fund, which is financed by the Federal gasoline tax and other highway user fees.

Mr. Chairman and members of the Subcommittee, I want to thank you for your leadership in the speedy passage of a clean ICE bill. Our budget request will permit completion of our Interstate highway system as planned, but it depends on the quick release of Interstate construction funds.

NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION

The total budget authority requested to continue the current programs of the National Highway Traffic Safety Administration is $212.2 million. A program level of $97.2 million is proposed for Operations and Research, which includes funding for safety programs ranging from occupant protection to intensified efforts to combat drunk driving. Also included is $20 million in both FY 1985 and FY 1986 for implementation of the national occupant protection program designed to reduce traffic accidents and fatalities. The budget proposes language to permit the application to this program of an additional $7.2 million supplemental in FY 1985 to reach a program level of $20 million. In FY 1986, $17 million is proposed to be transferred from unobligated balances in other accounts with an additional $3 million to be provided from NHTSA budget authority under Operations and Research.

Section 402 safety formula grants to states will be funded within an obligation limitation of $126.5 million. These grants can be applied to a variety of areas, including police traffic services, emergency medical services, and alcohol countermeasures. In addition, an obligation limitation of $28.8 million will be applied to the Section 408 alcohol safety incentive grants. While no new budget authority is proposed for this program in FY 1986, the limitation will cover obligation of the estimated carryover balances.

URBAN MASS TRANSPORTATION ADMINISTRATION

In FY 1986, a total of $1.38 billion is requested for the various programs administered by the Urban Mass Transportation Administration. Eighty percent of this total, $1.1 billion, will be funded as contract authority under the Mass Transit Account of the Highway Trust Fund. Under proposed legislation that will be transmitted to the Congress soon, this would be distributed by a capital formula grant program, in place of the existing general fund program (Sections 9 and 18). Except for grants to Washington Metro, which will continue at the 1985 level until the Stark-Harris authorization is exhausted, all transit grants would therefore be financed from one cent of the Federal tax on highway motor fuels, consistent with this Administration's goal of funding the bulk of Federal transportation assistance through user fees. The formula grants would be available to finance planning, capital replacement, rehabilitation, and improvement projects. Effective in FY 1986, Federal funding would no longer be available for transit operating costs, since this matter is best addressed by local management through local decisionmaking and local financing. We are also urging the private sector to expand its role in providing efficient transportation services.

The Section 3 discretionary grants program would not receive new funds after FY 1985. We propose that currently available funding for FY 1984 and FY 1985 will be used to complete committed new start projects now under construction or new start projects which can be fully financed with budget authority for those years.

Starting in FY 1986, we also will not seek a separate UMTA appropriation for the Interstate Transfer-Transit program. Both transit and highway substitute projects are proposed to be eligible for funding from the Highway Account of the Highway Trust Fund, subject to the Federal-Aid Highway obligation limitation. While some projects may be drawn out a little longer than now scheduled, we expect the overall delay in completion of the total Interstate Transfer programs to be less than one year.

A $24.6 million FY 1986 R&D program will be funded entirely by deferral of unobligated FY 1984 balances, while the current year program will remain at the planned level of about $50 million.

As you consider the resource levels in this budget request, I hope that you will agree that they would permit us to make significant progress toward our mutual goal of a safer, more reliable, and more efficient transportation system, while making a significant contribution to our Nation's deficit reduction effort.

This concludes my prepared statement. We would now be glad to respond to Committee questions.

STATEMENT OF DIANE K. STEED, ADMINISTRATOR, NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, BEFORE THE SURFACE TRANSPORTATION SUBCOMMITTEE OF THE HOUSE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION, ON THE FISCAL YEAR 1986 BUDGET

March 7, 1985

Mr. Chairman and members of the Subcommittee:

I am pleased to appear today to testify on the fiscal year 1986 budget of the National Highway Traffic Safety Administration. We are looking forward to continuing the progress in highway safety that has been made in recent years, and I am glad to have this opportunity to inform you of our plans for FY 1986.

Secretary Dole has given you a summary of the funding levels for highway safety programs in FY 1986. I want to stress that those levels are virtually unchanged from FY 1985 levels, thereby affirming our belief in the value of those programs. Their effectiveness is clear.

I can report that the fatality rate in 1984 declined to an all-time low of 2.55 deaths per hundred million vehicle miles travelled. In 1984, the combined effects of a variety of interrelated factors --alcohol programs, improved vehicles, higher levels of belt use, better roads --were almost enough to overcome the effects of a 4.5 percent surge in vehicle miles travelled during the year. Our final data are not yet in, but we estimate that 43,800 persons died in highway crashes during 1984, an increase over the 42,600 who died in 1983, but well below the number who would have died if safety efforts had not moved ahead. This number shows progress, but it also shows how far we have to go.

Of all the activities in highway safety, alcohol safety and occupant protection remain at the top of my agency's agenda. In the area of alcohol, we are beginning to see evidence of a real decline in the incidence of alcohol-related fatalities. For 1980, our data indicated that about 50 percent of fatally injured drivers were legally intoxicated. Our data for the first 9 months of 1984 suggest that the percentage of intoxicated drivers in fatal accidents has declined to 45 percent.

In the area of occupant restraints, the upward movement in belt use now seems to be well established. Our roadside observations indicate that the use rate among drivers has climbed above 15 percent, an increase confirmed by our accident investigations. New York, with its belt use law which went into effect January 1, has experienced a dramatic increase in belt usage from 17 percent to an estimated 66 percent, based on preliminary data. We believe that these trends in alcohol involvement and belt use account for a part of the decline in the highway fatality rate. I believe that new developments in both areas will produce even more pronounced improvements during the coming year.

ALCOHOL PROGRAMS

I will turn first to the alcohol safety program. During the last two sessions of Congress, this Committee reported two major bills which were enacted into law to deter drunk driving. The first, enacted in 1982, established the Section 408 alcohol safety incentive grant program. Under this program, 16 States have now qualified for a basic grant, and 13 of those States have also qualified for a supplemental grant. A number of other States have enacted legislation satisfying several of the grant criteria and are working to satisfy the remaining criteria. Several of the qualifying States have already shown remarkable progress. One of the most notable examples is North Dakota, which achieved a 44 percent reduction in alcohol-related fatalities during the 12 months ending June 30, 1984, compared to the preceding 12 months. We are working with the qualifying States to implement their programs and expect to see significant reductions in alcohol involvement as a result of these programs. For fiscal year 1986, we are seeking an obligation limitation of $28.8 million for the Section 408 program. This represents our best estimate of the States' ability to implement programs in that year.

The second bill, enacted last summer, directs the Secretary of Transportation to withhold 5 percent of the fiscal year 1987 Federal-aid highway funds and 10 percent of fiscal year 1988 funds from any State that permits the purchase or public possession of alcohol by persons under the age of 21. After the law was enacted, Massachusetts raised its minimum drinking age to 21. I am pleased to report that the Georgia and Virginia legislatures have passed age 21 drinking bills. Upon the Governors' signatures, these will become the 25th and 26th States to adopt 21 as the minimum drinking age. Age-21 bills have been introduced in 18 other States. Although the legislation was defeated in Wyoming, we are encouraged to see that age-21 bills have passed the Senates of Mississippi and Montana. We believe there is a good chance of passage in other States as well.

We have developed a notice of proposed rulemaking, which we hope to publish in the near future, to assist the States in drafting drinking age legislation. I believe that this guidance will facilitate the enactment of age-21 drinking laws in additional States. It will thereby help reduce the tragic loss of lives resulting from the involvement of young drivers in alcohol-related accidents, while also helping to assure the continued availability of Federal-aid highway funds to the States. Funding support for the development and implementation of age-21 drinking laws will be available both through the Section 408 program and through the basic Section 402 program. Alcohol safety programs will continue to draw a large share of the Section 402 funds, for which we are seeking an obligation limitation of $126.5 million in FY 1986.

SAFETY BELTS

After years of perseverance and hard work, safety advocates in the States are succeeding in passing laws to require the use of safety belts. I am very pleased to report that New Jersey, Illinois, and Michigan have now joined New York in enacting safety belt use laws.

During the 1985 legislative sessions, bills to require safety belt use have been introduced in more than 30 States and are expected to be considered in several others. Safety belt legislation also passed one house in both the Maryland and Virginia legislatures, which should help lay the groundwork for renewed efforts in those States next year. The prospects in several other States are also favorable for serious consideration of belt use laws.

The momentum is clearly shifting in favor of enacting State belt use laws. As the life-saving results from the States with laws become known, we expect that public support for belt use laws will increase even further. The plain fact is that safety belts save lives. In New York alone, millions of motorists are now buckling up, many for the first time. Thousands of persons will now be wearing belts when crashes occur, and many will be spared death or serious injury because of the belts. Through the occupant protection program, we will spread the news about these results to other states.

As I noted earlier, preliminary data from New York after the belt use law went into full effect on January 1, 1985, suggests that about sixty-six percent of motorists are buckling their belts, up from 17 percent in early October. Usage began increasing even before enforcement began. We have worked intensively with New York in the development of their implementation plans to help gain public acceptance of the new law.

We are doing our utmost to ensure that information about the benefits of safety belts and of all types of occupant protection is available to a wide spectrum of individuals and organizations in each State. The evidence is clear that mandatory use laws can significantly increase belt use and save lives. We want to facilitate States' consideration of such laws, but, in a larger sense, our goal is to increase the understanding of the importance of occupant protection.

To enable our efforts to move ahead, we are seeking full funding for the $20 million occupant protection program in fiscal years 1985 and 1986. We have developed a national occupant protection program for which these funds would be used. A major objective of this program is to lay a foundation which will result in the benefits of belt use and of other occupant protection systems being better understood by policy makers and the public. We have already made substantial progress. We have made presentations at governors' conferences, State and national conferences of legislators, before newspaper editorial boards throughout the country, on radio and television news programs and talk shows, and have testified, when requested, before State legislatures. We are making available new and expanded materials and other forms of technical assistance to States and localities. We have responded to numerous requests for information from legislators and the public. All fifty States have been contacted and offered technical and other assistance.

As a final word on the subject of occupant protection, I want to assure you that we have not forgotten the vital role of child safety seats. In many respects, the movement that led to enactment of child safety seat laws was a model for the current trend toward safety belt use laws. Now that the laws have been passed, we will be working with the states to ensure that the Section 402 funding earmarked for child restraints will be put to work to implement the laws. The usage levels are not yet what they could be, and many seats are still used incorrectly. We are still short of the goal of protecting all children in motor vehicles, but we are making significant progress and expect to continue that effort.

Mr. Chairman, this concludes my prepared remarks. If you have questions about the program activities I have discussed or about other activities, I would be glad to answer them at this time.

Statement of Federal Highway Administrator
Ray A. Barnhart
Before The House Committee on Public Works and Transportation
Subcommittee on Surface Transportation
Hearing on Transportation Issues Related to
The President's Budget Submission

March 7, 1985

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here this morning to discuss the Federal-aid highway program in connection with our 1986 budget request and approval of the Interstate and Interstate Substitute Cost Estimates (ICE and ISCE).

First, I would like to add my thanks to that of Secretary Dole for the leadership of the Subcommittee in the approval of a clean ICE. More than $7 billion in Federal-aid highway funds have been waiting for the final enactment of legislation approving the ICE and ISCE. Over 40 States have been without sufficient Interstate funds to move projects forward. I hope that a bill will shortly be presented to the President in a form that is acceptable to the Administration.

F.Y. 1984 Accomplishments

I would like to mention a few of the F.Y. 1984 accomplishments which we consider noteworthy as well as some of our emphasis areas for the current and future years.

- Interstate System

An additional 108 miles were put into service and another 188 were put under contract, leaving only about 973 miles to be completed.

- Interstate 4R

Resurfacing, restoration, rehabilitation and reconstruction were again emphasized—obligations for these activities exceeded $2.5 billion.

- Bridge Replacement and Rehabilitation

In the Highway Bridge Replacement and Rehabilitation program, obligations exceeded $1.8 billion.

- Highway Safety

Approximately $486 million were obligated for the various safety construction programs.

- FHWA Disadvantaged Business Enterprise

Contracts or commitments totalling $1.27 billion were awarded to disadvantaged businesses and $295.2 million in contracts were awarded to firms owned and controlled by women.

These amounts represent very dramatic increases in FHWA participation in these programs and I am very proud of our progress.

Current and Future Emphasis

In fiscal years 1985 and 1986, we will continue our efforts to fully implement the programs and activities of national interest identified by the Congress. During F.Y. 1985 and 1986, we will continue our emphasis on:

- o Safety
- o Effective Implementation of STAA Funding
- o Quality Design and Construction
- o Disadvantaged Business Enterprise (DBE)

and will also concentrate on other emphasis areas that will be identified soon.

Summary of the Budget

Our F.Y. 1986 Budget Request is based on both the authorization levels of the 1982 Surface Transportation Assistance Act and the Administration's overall budget strategy of controlling Federal spending to contribute to the deficit reduction effort. I will now highlight a few key elements:

Key Elements

o Program Levels

The program levels or obligations are the most meaningful indicator of budget activity. We anticipate total obligations of about $14.3 billion which includes about $14.240 billion for the Federal-aid highways account, $14 million for the Motor Carrier Safety account, and $14 million for Motor Carrier Safety Grants.

o Federal-aid Highways

This, of course, is our principal program which provides the basic foundation of the Government's efforts to assist States and localities in developing and improving the national highway system.

For F.Y. 1986, we are proposing an obligation limitation of $13.250 billion with only Emergency Relief and 85% minimum projects exempt from this limitation. As you know, the proposed limitation amount for F.Y. 1986 is the same as the limitation enacted in the F.Y. 1985 Appropriations Act.

Our proposal, like the 1982 STA Act, would limit total obligations in the first quarter by all the States to not more than 25 percent of the national obligation limitation, and would allow each individual State to obligate up to 40 percent of its annual limitation.

Our budget proposes to shift funding of Interstate transit projects from the general fund to the Highway Account of the Highway Trust Fund. The $[redacted] 400 million fiscal year 1986 authorization from the general fund for Interstate transfer projects would be [redacted] repealed. The budget request also proposes rescission of the $100 million authorized in fiscal year 1986 for parkways and park highways.

o Motor Carrier Safety Operations

Our request for the ongoing motor carrier safety program is $13.639 million. Program activities will concentrate on high risk motor carrier operations, particularly those related to transporting hazardous materials, and to provide safety equipment and hazardous cargo training and technical assistance to State enforcement agencies. The decrease of $427 thousand from the F.Y. 1985 Appropriations Act results primarily from government-wide administrative, pay, and management savings initiatives.

o Motor Carrier Safety Grants

Our budget also includes a request for $14.0 million for Motor Carrier Safety Grants. This program, authorized by the 1982 Surface Transportation Assistance Act, provides grants to States for enforcement of Federal motor carrier safety standards and compatible State standards. As you know, $14.0 million is the amount appropriated in F.Y. 1985, and our F.Y. 1986 proposal would maintain that level.

Our budget request estimates total obligation for fiscal years 1986 and 1987 at the 1985 level of $14.24 billion. The obligation limitation is maintained at the fiscal year 1985 level ($13.25 billion) through fiscal year 1987.

o Other Details

There are several programs which I have not mentioned yet, but are noteworthy and I would like to discuss them briefly at this point.

Highway Related Safety Grants - The 1982 STA Act provided authority in the amount of $10 million per year for this program for F.Y. 1985 and 1986. Our F.Y. 1986 budget proposal is to utilize the entire program amount and obligation limitation provided; therefore, a liquidating cash appropriation of $9,000,000 is requested.

Right-of-Way Revolving Fund - As part of the Administration's overall effort to assure prudent management of Federal credit programs, the F.Y. 1985 $50,000,000 limitation on gross obligations is proposed for continuation in 1986.

Conclusion

We will be happy to discuss the estimates in detail, answer your questions, and provide additional information that may be helpful to the Committee.

STATEMENT OF RALPH L. STANLEY
ADMINISTRATOR, URBAN MASS TRANSPORTATION ADMINISTRATION,
BEFORE THE SUBCOMMITTEE ON SURFACE TRANSPORTATION OF
THE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
HOUSE OF REPRESENTATIVES ON THURSDAY, MARCH 7, 1985

Mr. Chairman, and distinguished members of the Subcommittee, I am pleased to have this opportunity to appear before you to discuss our budget proposal for fiscal year 1986. Before discussing the specifics of our budget, however, I would like to briefly discuss two overriding concerns that shaped our proposal. The first is the size of the deficit, a problem we all know about. The second is the size of the UMTA program, which has grown from an annual funding level of approximately $130 million during the 1960s, passed the billion dollar mark in the 1970s, and has exceeded the four billion dollar level over the past three years. It is our belief in the context of the national deficit issue that we no longer can afford this level of funding for what essentially is a local responsibility.

UMTA's fiscal year 1986 budget proposal is essential to the Administration's goals of facilitating the maintenance of a safe and efficient national transportation system, and yet reducing the share of the Federal deficit created by the cost of transportation programs. Specifically, this budget proposal seeks to reduce the Federal cost of providing transit services, the benefits of which are largely local. To achieve this goal, the Administration proposes to limit Federal funding of transit primarily to dedicated sources of revenue. At the same time, the Administration seeks to encourage the private sector to expand its role in providing efficient transportation services. The involvement of the private sector is particularly appropriate for the UMTA program, and will greatly aid efforts to have localities bear the cost of transportation services and facilities from which they primarily benefit.

I recognize these proposals will involve a significant restructuring of the UMTA program, but it is one that I believe is necessary to realize the President's goal of establishing the proper Federal, State and local relationship in providing transit, and of reducing the Federal deficit. Our budget request for UMTA for FY 1986 is $1.377 billion. Eighty percent of that amount will be funded from the Mass Transit Account of the Highway Trust Fund, consistent with the Administration's goal of funding most Federal transportation assistance through user fees. The Trust Fund monies would be distributed by formula and would not be available for use by recipients for operating assistance. We also propose to raise the minimum local share for these formula capital grants from 20 percent to 30 percent to encourage a greater local commitment to transit projects.

In proposing to have the transit program essentially distributed by formula and based on Transit Account funding, we are also calling for the elimination of the discretionary grants program, beginning in FY 1986.

Discretionary Grants

The section 3 program is now the largest discretionary funding source in the government. Because it is funded from the Transit Account, there has been congressional discussion about allocating at least some of the funds on the basis of a formula. We would go further. The Administration believes it is more appropriate to allocate gas tax receipts entirely on the basis of a legislative formula than to target them to a few selected localities. Moreover, regardless of the source of funding, there are inherent problems in allocating discretionary grants funds, particularly for new starts.

The demand for new start funds far exceeds any available Federal resources, as members of this Committee are well aware. Over the course of the past 18 months, the Administration has worked very hard to develop and implement a set of objective criteria for evaluating applications for scarce new start funds. We appreciate the efforts of this Committee to encourage the adoption of such objective criteria. However, judging from the FY 1985 appropriations process, continued Federal funding for new rail starts under a discretionary program threatens to result in the development of unnecessary and inefficient transit systems that cost more to operate than other available transportation alternatives.

If the Federal Government agreed to fund construction costs of all the projects earmarked by Congress in FY 1985, we would create an "unfunded liability" of $4 to 6 billion dollars that could not be paid for even under the most ambitious transit funding proposal. Moreover, already other cities are developing additional projects for which they may be expected to seek Federal funding, thus adding to the potential Federal debt.

In FY 1985, section 3 new start funds available under the FY 1984 and 1985 obligation limitations will be used to complete committed fixed guideway projects and especially worthy projects which can be fully financed using available funds. We will propose reprogramming to accomplish this.

Formula Grants

For fiscal year 1986, we are proposing to fund a capital formula grants program entirely from the Mass Transit Account of the Highway Trust Fund.

This Account currently funds the contract authority available in fiscal years 1984 and 1985 for discretionary grants and, under our FY 1986 budget proposal, would replace the appropriations from the General Fund as the sole funding source for a capital formula grants program. Such a change would allow this user financed fund to be distributed on an equitable basis to the entire country. The Administration believes that since the funds in the Mass Transit Account are collected in all 50 States, it is appropriate to distribute these user fee receipts by formula to all 50 States. We are requesting an obligational limitation of $1.1 billion on the available contract authority, which is consistent with the existing authorization under the Mass Transit Account.

This funding proposal is based on the principles I mentioned earlier. Transit is, in large part, a local responsibility, both because its benefits are primarily local and because the myriad decisions concerning its provision - such as fare and route structure - are local. Because transit is essentially a local responsibility, we believe that transit programs should not receive substantial Federal funding other than from the current Federal user fee collected specifically for financial assistance to mass transit capital projects.

As I pointed out earlier, these FY 1986 formula grants funds would not be available for use by recipients for operating subsidies. Of all the components of transit expense, those relating to operating costs are the most driven by purely local policies. Decisions regarding service hours, service frequency, fares, and labor costs are made at the local level - and rightly so. It is also right that the locality, to whom those local decision-makers are answerable, not the Federal Government, bears the costs of those decisions. Moreover, by law the funds from the Mass Transit Account are only available for capital purposes.

As part of the restructuring of the formula grants program, we propose to change the maximum Federal share of all formula capital grants from 80 to 70 percent. This ratio will encourage a greater commitment at the local level to make more economically sound decisions on how the funds are used. The proposal is in line with the Administration's long-standing goal of encouraging greater local participation in the funding of local mass transit projects.

Rural and Elderly and Handicapped Programs

Our budget proposal would continue capital funding for the section 18 nonurbanized area program, as well as for the section 16 program for the elderly and handicapped. These programs have proven useful and are strongly supported at the State level.

The budget proposal would make 2.93 per cent of the FY 1986 Mass Transit Account contract authority available for the section 18 program. This follows the current statutory scheme under which 2.93 per cent of the formula grant funds are available for the nonurbanized areas. The section 16 program would receive up to $35 million of the FY 1986 formula funds. We believe that both programs would be sufficiently funded under our proposal.

Interstate Transfer Grants-Transit

The Administration requests no FY 1986 appropriation for mass transit projects substituted for withdrawn Interstate segments. Instead we propose to make these projects eligible for funding from the Highway Trust Fund, which will put them on the same footing as substitute highway projects. We believe that user fee principles should apply: it is more appropriate to fund all substitute projects directly from the source that otherwise would have funded the withdrawn Interstate segments than to separately fund substitute transit projects from the General Fund. In this case, failure to apply these principles needlessly adds to the Federal deficit.

Washington Metro

To continue construction of the Washington Metrorail System, we are requesting a FY 1986 appropriation of $250 million under the Stark-Harris legislation. This is the same level of funding made available in FY 1985, and will provide a sufficient level of Federal funding to maintain an adequate construction program for progress on the rail system. The Administration will continue our current policy of funding only cost-effective, contiguous, and operable segments. We will use full funding contracts for all grants beyond 76.4 miles, but within the Stark-Harris authorization. Once that authorization is exhausted, we will oppose any proposals for special funding for Metro.

Research and Training; Administration

We are not requesting an appropriation for the Research, Training, and Human Resources account. Rather, $24.6 million in unobligated balances from prior years will be used to carry out the program for FY 1986.

We are requesting a FY 1986 appropriation of $26.8 million for administrative expenses. The reduction from the FY 1985 funding level is due to savings from various management initiatives and the first phase of personnel reductions designed to achieve a staffing level by FY 1988 that is consistent with our planned lower program levels.

This restructuring of the UMTA program that we are proposing obviously would require changes in the authorizing statute, and we will be submitting the necessary implementing legislation to the Congress shortly.

Conclusion

Mr. Chairman, that concludes my statement. I would be pleased to answer any questions that you may have.

Mr. Anderson
Record Question #1

COST OF FEDERAL REQUIREMENTS

MR. ANDERSON: Representatives from the League of Cities, Conference of Mayors, and NACO, dispute your notion that they control their operating costs. They cite the Garcia case as an example where the Federal Government wants to increase their costs, and they also say that Federal requirements relating to bus specifications, gas mileage, and handicapped access also add to their costs. They don't necessarily dispute the merits behind these requirements, but only point out that the Federal Government is making them do things that add to their costs. How do you respond to that?

MRS. DOLE: The transit agencies are certainly correct that there are Federal laws which govern some of their decisions and add to their costs. This Administration is attempting to reduce unneeded restrictions on all entities that are regulated. I would certainly ask your support in seeking legislative change to reduce unnecessary regulations.

However, to the extent that there are some regulations that are necessary for health for safety reasons, I do not think that this is a justification for Federal operating assistance. If it were, private companies who are subject to environmental provisions, for instance, could also argue for operating assistance.

As to the specifics of the Garcia case, the Government's position was that the Congress' decision to extend the coverage of the Fair Labor Standards Act to transit employees was permissible under the Constitution. The Administration did not argue that the Congress' decision to apply the FLSA to transit employees constituted the best choice of public policy.

Mr. Anderson
Record Question 2

COST OF GARCIA CASE

MR. ANDERSON: (a) I have heard that the Garcia vs. San Antonio case will result in between a $50 million and $100 million annual total increase in the cost of operating transit properties across the nation. Have you been able to pin that down to a more precise figure?

(b) The Department of Labor and the Justice Department are studying whether the decision should be applied retroactively. Has the Department of Transportation been consulted on this, since it does have very great ramifications for the transit industry?

(If "no") Don't you think you should be consulted?

(If "yes") What has your position been?

(c) So, it's going to cost transit properties considerably more to operate as a result of this case. This Administration's Justice Department worked hard to get the Court's ruling on this. How can the Administration argue on the one hand that there is a Federal interest in the operation of transit properties, but argue on the other hand that it is not a matter of Federal interest, as you have argued in your testimony with respect to operating assistance?

MRS. DOLE: We have not developed an estimate of the potential costs resulting from the Garcia case. Those costs would be affected by the Department of Labor's guidance implementing the decision and that guidance has not yet been issued. We have initiated discussions with the Department of Labor concerning this issue, including the issue of retroactive application.

Regarding your final point, the Administration in the Garcia case supported the view that transit was not a traditional local government function. Thus, under the earlier National league of cities test, the Fair Labor Standards Act would have applied to local transit employees. The Administration's position was formulated in large part on its obligation to defend the constitutionality of a Congressional enactment, unless the enactment is clearly unconstitutional. The Administration's defense of the statute should not be interpreted as an endorsement of the Congressional decision to apply the FLSA to public transit or that the Federal interest is any greater with respect to public transit than for other private business subject to the FLSA. There is simply no basis for contending that this legal position at the same time implies Administration support for a Federal role in transit. That is a different issue.

Mr. Anderson Record Ques. #(3)(A)

BUREAU OF MOTOR CARRIER SAFETY REORGANIZATION

MR. ANDERSON: Later in this Session of the Congress, the Subcommittee will be holding oversight hearings on the implementation of the new Motor Carrier Safety Act. Included in the scope of those hearings will be the effectiveness of the enforcement program carried out by the Bureau of Motor Carrier Safety. Currently, the Bureau is being reorganized within the Federal Highway Administration.

Could you please bring us up to date on the status of the reorganization and tell us what the Department intends to achieve by the reorganization?

MRS. DOLE: The overall intent of the reorganization is to strengthen the operational effectiveness of the Bureau of Motor Carrier Safety (BMCS). A reorganization of the Bureau has been recommended by various Congressional, departmental, and General Accounting Office (GAO) studies, as well as by the trucking industry itself.

At this point, we have initiated action within the Federal Highway Administration to:

1) Establish an Associate Administrator for Motor Carriers.

2) Establish a more visible Washington Headquarters element for the Motor Carrier Safety Assistance Program.

3) Establish a direct line of authority from the Associate Administrator for Motor Carriers, through the Director of BMCS, to the MCS staff in the field.

Mr. Anderson Record Question #3(B)

MOTOR CARRIER SAFETY

Mr. Anderson: The proposed Budget for the Bureau for Fiscal Year 1986 is $13,639,000.00. Is that funding level sufficient for the Bureau to carry out its mission?

Mrs. Dole: We are satisfied that the Fiscal Year 1986 request is adequate to cover the salaries and expenses for the Motor Carrier Safety Program, even after some reductions in travel, printing, and research activities.

Mr. Anderson Record Question #4(A)

MOTOR CARRIER SAFETY FEDERAL/STATE GRANT PROGRAM

Mr. Anderson: A budget request of $14 million is made to carry out the Federal/State Grant Program created by Section 402 of the Surface Transportation Assistance Act. That is less than 50% of the cap authorized by Fiscal Year 1986. Since the program is now in the third year, what effect will this funding level have on the program? In other words, will this program continue its progress toward its desired goal of a full enforcement partnership between the Federal and State governments?

Mrs. Dole: The request for $14 million plus the potential carryover of $2 million will be sufficient to meet the States' needs for the basic roadside inspection program. Plans for the conduct of safety management audits by the States may have to be deferred. This aspect of the program is considered to be a refinement over the basic roadside inspection program which can be phased in over time. We believe the program will continue its progress toward a full enforcement partnership, because of the heavy investment in recruitment, training of enforcement officers, equipment, and logistical support will be in place for most States, and we will begin to see evidence of stepped up enforcement on the public highways.

Mr. Anderson Record Question #4(B)

STATE ASSISTANCE NEEDS

Mr. Anderson: Is the $14 million sufficient to cover all of the requests submitted by the States? In your answer, could you please tell us how many States have submitted or are anticipated to submit requests under this program and what the total amount of those requests are or will be?

Mrs. Dole: State requests for funds have been guided to some extent by the availability of funds, and by the formula contained in the regulations which govern each State's equitable share. States tend to develop requests which exceed the formula share, to take advantage of possible increases available from the shares of States that choose not to participate at this time. However, we anticipate all States and territories will submit applications for funds in Fiscal Year 1986. In Fiscal Year 1985, six States and one territory did not participate in the program.

Mr. Anderson, Question # 5

Transfer of $10 million

Mr. Anderson: Madam Secretary, your budget proposes to transfer $10 million out of the Section 209 program -- is that correct?

Mrs. Dole: Yes. The budget proposes to transfer $10 million authorized for the national campaign phase of the Section 209 program to our occupant restraint program. Our occupant protection program has the same objective of increasing public awareness and reducing traffic accidents, injuries, and deaths as the Section 209 program.

We believe that the occupant protection program is compatible with the purposes of the Section 209. By transferring the funds, we will be able to put them to use immediately. As we complete the demonstration projects under the first phase of Section 209, in about two years, we will carefully evaluate the projects' effectiveness. If their effectiveness is demonstrated, we would consider alternative sources of funding for the Section 209 national campaign.

Mr. Anderson, Question #6

Status of the 209 Program

Mr. Anderson: Will you please tell us the current status of the 209 program?

Mrs. Dole: We have awarded all five contracts that we had planned for the demonstration programs under Secton 209. The first contract was awarded to the Advertising Council on December 7, 1983, to conduct a national drunk driving project. The project involves the development of three public service announcements, for national distribution, and a community-based alcohol countermeasure program in Springfield, Missouri, which will incorporate the announcements as part of a comprehensive community program. The public service announcements have been well received. We are evaluating the effectiveness of these announcements, and expect to have preliminary results by September 1985.

Four additional contracts were awarded in January and early February of this year. They include mass media demonstration projects relating to youth highway safety, safety belt/child safety seat usage, emergency medical services, and law enforcement public education. Each of these projects is operational and is currently in the process of project planning, media development and evaluation design. The demonstration projects are scheduled to be completed by December 1986.

Mr. Anderson, Question # 7

Five 209 Projects

Mr. Anderson: Although six projects were authorized, only five projects received funding. Would you please outline the five projects, the expenditures for each and their current status?

Mrs. Dole: The five Section 209 program areas that have received funding are: (1) Drunk Driving; (2) Youth Highway Safety; (3) Safety Belts/Child Safety Seats; (4) Emergency Medical Services; and (5) Law Enforcement Public Education.

Drunk Driving Project

Following the enactment of the FY 1983 Supplemental Appropriations Act, NHTSA awarded a contract to the Advertising Council, Inc., to develop an anti-drunk driving campaign. The contract was awarded on December 7, 1983, in the amount of $970,000, and with subsequent modifications the total amount has increased to $1,152,000. As part of this effort, three award-winning public service announcements (PSAs) were produced that have received national acclaim and are still used extensively by TV stations throughout the country, most recently during the 1984 holiday season. The PSA's produced are entitled, "Crashing Glasses," "Christmas Wreath," and "Skeleton." This contract included the participation of Michael Jackson and the contribution of his popular "Beat It" recording used in the "Skeleton" PSA. Overall, the campaign's messages produced over $50 million in air time with much of that time occurring within prime air time.

A test market program was initiated August 1984 in Springfield, Missouri, to explore methods for getting better public information campaign results by working with and through a strong community-based alcohol countermeasure program. A coalition from within the Springfield community is exploring ways of integrating the Ad Council advertising products into their efforts at the same time they promote the local media's use of those products.

The test market will be evaluated to determine the effectiveness of the program in combatting and reducing drunk driving at the community level. The program should help determine better ways of utilizing the strategy of community involvement to achieve high levels of public service campaign success. The project is scheduled for completion by the fall of 1985, with evaluation results finalized in the spring of 1986.

Highway Safety Mass Media Youth Project

In the two youth project contracts, the primary objectives are to measure the effectiveness of paid advertising versus public service announcements in reducing the incidence of teenage drunk driving, in increasing safety belt use, and in reducing traffic accidents, injuries and deaths. The project will use media to increase young people's awareness and knowledge of the benefits of safety belt usage and to change their attitude concerning drinking and driving. As part of the program, there will be an effort to increase young people's willingness to take personal action to reduce alcohol-related crashes.

One contract, in the amount of $471,000, was awarded on January 9, 1985, to Morris and Company, Inc., of Chevy Chase, MD. The project test sites are located in Eau Claire and Green Bay, Wisconsin. The estimated date of completion is November 1986. The second contract was awarded on January 28, 1985, to the University of Kansas, Institute for Economic and Business Research, School of Business, located in Lawrence, Kansas. The contract is in the amount of $464,000. The project test sites are Wichita and Kansas City, Kansas. The estimated date of completion is also November 1986.

Safety Belt/Child Safety Seat Usage Demonstration Project

The purpose of the safety belt/child safety seat usage demonstration project is to assess the relative effectiveness of the media campaign--paid advertising versus public service announcements--in increasing belt use when conducted in conjunction with educational and promotional strategies, and to measure the effectiveness of the media campaign in reducing traffic accidents, injuries and deaths. The broad goal of the project is to increase safety belt and child safety seat usage.

Two project contracts were awarded. The first contract was awarded on January 9, 1985, to the Traffic Institute at Northwestern University, Evanston, Illinois, in the amount of $426,000. The project test sites are Rockford and Peoria, Illinois. The second contract was awarded on January 9, 1985, to the Pennsylvania Department of Transportation, Harrisburg, Pennsylvania, in the amount of $448,000, with project test sites located at Altoona (Blair Co.) and Wilkes-Barre (Luzerne Co.), Pennsylvania. The estimated date of completion for both of these contracts is November 1986.

Public Education and Information Demonstration Project for Emergency Medical Services

The broad goal of this pilot project is to develop and conduct a public information and education campaign by emergency medical services systems designed to improve public awareness of emergency medical services, proper access to it and its use in assisting individuals injured in motor vehicle crashes. In addition, the project will assess the public's perception of risk of eventual death from motor vehicle crash related injury, and increase citizen knowledge of the steps to be taken if a motor vehicle crash is encountered. Finally, the project evaluation will measure the effectiveness of mass media advertising in reducing traffic accidents, injuries and deaths.

One contract totalling $929,000 was awarded on January 14, 1985, to Abt Associates, Inc., of Cambridge, Massachusetts. The project test sites are Charleston, South Carolina, and Savannah, Georgia. The estimated date of project completion is December 1986.

Public Education Demonstration Project by Law Enforcement

The object of this pilot project is to develop, conduct and evaluate a traffic safety education program to be executed by law enforcement practitioners to reduce motor vehicle crashes through the mass media, including both radio and television. The public awareness of traffic safety issues will be studied as well as the overall impact on crashes. The project will also measure the effectiveness of mass media--paid advertising versus public service announcements--in reducing traffic accidents, injuries and deaths.

In this fourth Section 209 program area, the one contract was awarded on February 5, 1985, to SYSTAN, Inc., of Los Altos, California, in the amount of $787,000. The project test sites are Sacramento and Bakersfield, California. The projected completion date is December 1986.

Mr. Anderson, Question # 8

209 Project Summary

Mr. Anderson: Would you please identify the project localities, the organization responsible for conducting each project, and the amount to be allocated to each organization for its project?

Mrs. Dole: Contracts have been awarded in five program areas. The contract information requested for each area individual project is:

Drunk Driving:
Advertising Council, Inc. of New York City
$1,152,000; awarded 12/7/83
Test Site - Springfield, Missouri

Youth Highway Safety

1. Morris and Company of Chevy Chase, Maryland
$471,000; awarded 1/9/85
Test Sites - Eau Claire and Green Bay, Wisconsin

2. University of Kansas, School of Business, at Lawrence, Kansas
$464,000; 1/28/85
Test Sites - Wichita and Kansas City, Kansas

Safety Belts/Child Safety Seats

1. Northwestern University, Traffic Institute of Evanston, Illinois
$426,000; awarded 1/9/85
Test Sites - Rockford and Peoria, Illinois

2. Pennsylvania Department of Transportation, Harrisburg, Pennsylvania
$488,000; awarded 1/9/85
Test Sites - Altoona (Blair Co.) and Wilkes-Barre (Luzerne Co.), Pennsylvania

Emergency Medical Services

Abt Associates, Inc., of Cambridge, Massachusetts
$929,000; awarded 1/14/85
Test Sites - Charleston, South Carolina and Savannah, Georgia

Law Enforcement

SYSTAN, Inc., of Los Altos, California
$787,000; awarded 2/5/85
Test Sites - Sacramento and Bakersfield, California

Mr. Edgar
Record Question 1

SECTION 13(c) ISSUES

MR. EDGAR: Over the past four years there has been quite a bit of discussion about the elimination of 13(c) of the UMT Act with charges that rail labor unions have been obstructionists. Can you detail any instances over the past four years when rail labor has not been generally cooperative with regard to 13(c). What is the Administration's position on 13(c)?

MR. STANLEY: The Administration is still developing its position on section 13(c) at this time. Regarding your other questions, there have been instances in which transit agencies sought to have rail cars rehabilitated by means of contracting out with private companies and rail unions objected.

For example, the MBTA in Boston reported that it attempted to receive "no prejudice" authority from UMTA to rehabilitate 96 old rail diesel cars belonging to the Boston and Maine Railroad. The Boston and Maine operated commuter rail service under contract to the MBTA. The MBTA honors the B&M collective bargaining agreements which provided that rehabilitation work can be contracted out if the B&M lacked: proper facilities; needed managerial capability; sufficient employees to perform the work; and sufficient time to complete work in-house within schedule. B&M management claimed that all four conditions were present, but the Shop Craft Union of the Brotherhood of Railway Employees objected and forced the MBTA to use State funds for initial rehabilitation work.

Problems arising from the use of section 13(c), however, are not limited to any particular union. Section 13(c) has been used not only to protest existing rights, but also to gain new rights not contained in contract collective bargaining agreements. A recent Urban Institute study on 13(c) issues reported that twelve out of twenty-four of the largest transit properties had interest arbitration rights and estimated that over half of these rights had been secured in 13(c) agreements. Many public officials believe that interest arbitration when applied to local collective bargaining removes control of local budgets from public officials charged with responsibility over those budgets and removes the incentive for public transit unions to effectively bargain, preferring instead to await arbitration settlements.

Mr. Edgar
Record Question 2

STATUS OF RAIL MODERNIZATION STUDY

MR. EDGAR: What is the status of the rail modernization report requested by the appropriations committee in 1979. Can you summarize its conclusion?

MR. STANLEY: We are expecting our contractor to complete the engineering phase of the study soon. However, the study will also include a cost-benefit analysis of proposed rail modernization projects as well as evaluations of potential alternatives. In light of this, we expect the final study to be completed toward the end of this year.

Mr. Applegate Record Question #1

Redistribution of Obligation Authority

Mr. Applegate: The President's budget proposal advocates a freeze on the obligation ceiling at $13.2 billion instead of going with the authorized level in the 1982 STAA of $14,450,000,000 for FY 1986. What is going to happen to States like Ohio that run out of construction money because the obligation authority is reached in June?

Mrs. Dole: The legislation provides for a redistribution after August 1 of each year of obligation authority to States able to obligate additional amounts from States unable to obligate the amount distributed to them. Under the procedure prescribed by the legislation, an additional $19,066,361 was provided to Ohio in the redistribution of $462,507,499 of FY 1984 obligation authority last year. Also, Ohio could consider the advance construction procedures of section 115, title 23, United States Code.

Mr. Applegate Ques. 2

OHIO'S REIMBURSEMENT

Mr. Applegate: The President's budget proposal advocates the end of the Appalachian Development Highways Fund which is administered by EDA, but, if I understand it correctly, also with the assistance of the Department of Transportation. Last year Ohio spent $15 million in Advanced Construction money out of its own pocket on the Appalachian Highway Program. Can Ohio expect to be reimbursed for this money?

Mrs. Dole: No. The Appalachian development highway system and the Federal-aid highway system are governed by different statutes that have different program requirements. A project that is approved for Advance Construction under the provisions of Title II of the Appalachian Development Act (40 App. §201) would not meet the requirement for Advance Construction under §115 of title 23, United States Code.

Therefore, if Ohio does not receive any more Appalachian Highway funds, they will not be reimbursed for these highways. This is not a harsh result when you consider that Ohio has benefited from the Appalachian Highway funds more than any state outside of the program. Moreover, Ohio knew that there was no assurance of funding when they undertook the Advance Construction. The Advance Construction provision for Appalachian Highways says explicitly that it "shall not be construed as a commitment or obligation on the part of the United States to provide funds for segments of development highways constructed under this subsection * * *." (40 App. §201(h)(2))

Mr. Applegate Ques. #3

DEFICIT REDUCTION

Mr. Applegate: How is the deficit of the general revenue fund reduced by cutting spending from a Department of Transportation Trust Fund?

Mrs. Dole: A trust fund is an important concept because it ensures that amounts collected from users will be spent on activities that benefit the users. However, spending from a trust fund affects the deficit in two important ways.

First, under the unified budget that was first instituted by President Johnson, user fees that are collected count as revenues of the Federal government and expenditures count as spending. Therefore, any action taken which continues collecting user fees while freezing spending will decrease the deficit. Even with the freeze in FY 1986, the Highway Account of the Highway Trust Fund actually contributes to the deficit because the Budget estimates that highway outlays will be $13.7 billion in FY 86 while highway user fees will generate only $12.4 billion. While the immediate solvency of the fund is not at issue because of the $10.2 billion balance in the Highway Account of the Trust Fund in 1984 and interest that is being accrued, spending more in a fiscal year than we take in adds to the deficit in a very real way.

Second, investment of Highway Trust Fund receipts in securities of the

United States helps finance the deficit and decreases the Federal government's need to borrow cash from private markets. While the integrity of the Trust Fund is maintained on the books, cash does not sit idle in a vault waiting for a highway bill to become due. The Trust Fund is really like a savings account in a bank. Like a bank, the Treasury Department has the use of the Trust Fund receipts that are deposited until the funds are withdrawn for highway purposes. And, like a bank, Treasury credits the Trust Fund with interest on the receipts that it has held..